Manitoba

REPORT OF THE PROVINCIAL AUDITOR to the Legislative Assembly for the fiscal year ended March 31, 1986

87-00938/

TABLE OF CONTENTS

	Page
Legal Provisions	1
Introductory Comments	2
Summary of Matters of Concern and Recommendations	3
Assets and Liabilities - Overview Comments	6
Operating Fund Assets and Liabilities	
Working Capital	9
Loans and Advances	10
Manitoba Properties Inc	12
Excess of Liabilities over Financial Assets	13
Direct Public Debt	16
Guaranteed Public Debt	18
Combined Direct and Guaranteed Public Debt	20
Sinking Funds	22
Commitments and Contingent Liabilities	22
Trust Fund Assets and Liabilities	
Administered Trust Funds	27
Custodial Trust Funds	28
Revenue and Expenditure	29
Special Warrants	33
Government's Central Management System	
General Comments	34
Department of Finance	34
Civil Service Commission	36
Public Accounts Committee	37
Review of Government Control over Compensation by Crown Agencies	39
Government-wide Reviews	
General Comments	40
Planning	40
Management Reporting	40
Departmental Expenditure Estimates	41
Departmental Annual Reports	41
Internal Audit	42

TABLE OF CONTENTS

Page

Departments and Agencies Operations

Department of Business Development and Tourism and Department of Industry, Trade, and Technology 43
Department of Community Services and Corrections 43
Department of Culture, Heritage and Recreation 43
Department of Education 44
Department of Finance 44
Department of Health 44
Department of Natural Resources 45
Various Departments - Overexpenditures 45
Brandon University 47
Channel Area Loggers Ltd 47
Communities Economic Development Fund 48
Legal Aid Services Society of Manitoba 48
Manfor Ltd 48
Manitoba Beef Commission 49
Manitoba Development Corporation - Subsidiary and Investment Under Part II of the Act
General 49
Flyer Industries Limited 50
A E McKenzie Co Ltd and Subsidiaries 50
Saunders Aircraft Corporation Limited - In Receivership 50
The Pas Forestry Complex - Receiver 52
Manitoba Health Services Commission 53
Manitoba Housing and Renewal Corporation 53
Manitoba Lotteries Foundation 53
Manitoba Telephone System 54
MTX Telecom Services Inc 55
Universities Grants Commission 55
University of Winnipeg 55
Workers Compensation Board 55

Organization and Activities of the Provincial Auditor's Office

Scope of Audit and Reporting Procedures 57
Organization 58
Staffing 58
Staff Training 58
Revenue and Expenditure 59
Audit of the Accounts of the Provincial Auditor's Office 59
Meeting of Legislative Auditors 60
Acknowledgements 61

TABLE OF CONTENTS

		Page
Exhibits		62
1.	Scope of audit and reporting procedures	63
2.	Schedule of Government Agencies audited by the Provincial Auditor's Office	66
3.	Schedule of Government Agencies audited by Private-Sector Audit Firms with an overview audit by the Provincial Auditor's Office	68
4.	Organizational chart of the Provincial Auditor's Office	69
5.	Report on the audit of the Provincial Auditor's Office	70
6.	Summary of Special Warrants by Departments	71
7.	The Provincial Auditor's Report in the Public Accounts	72
8.	Statement of Responsibility for the preparation of the financial statements	73
9.	Statement of Financial Position - Operating Fund	74
10.	Statement of Revenue and Expenditure	75
11.	Statement of Changes in Financial Position - Operating Fund	76
12.	Notes and Schedules to the Financial Statements	77
13.	Accounting Policies - Statement and Application	86
14.	Trust Fund Assets and Liabilities	91

REPORT OF THE PROVINCIAL AUDITOR FOR THE YEAR ENDED MARCH 31, 1986

LEGAL PROVISIONS

This report is made to the Legislative Assembly of Manitoba for the fiscal year ended March 31, 1986 in compliance with subsections (1), (1.1), (2) and (3) of section 13 of The Provincial Auditor's Act. These subsections of section 13 of the Act are as follows:

Report to assembly.

13(1) The Provincial Auditor shall report annually to the assembly

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Content of the report.

13(1.1) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized; and

(c) that public moneys have been expended other than for the purposes for which it was appropriated by the Legislature.

Submission of report.

13(2) The report of the Provincial Auditor shall, on or before the thirty-first day of December next after the close of the fiscal year for which it was made, be delivered to the Lieutenant Governor in Council to be laid before the assembly if it is then in sesssion, or, if the assembly is not then in session, within fifteen days after the commencement of the next ensuing session.

Distribution of report to members of assembly.

13(3) The Lieutenant Governor in Council, upon receiving the report of the Provincial Auditor, shall direct that copies of the report be sent to the members of the assembly.

In accordance with the aforementioned requirements of the Act, I report on significant matters where difficulties have been observed and any other matters which I consider should be brought to the attention of the Legislative Assembly. This is being done in a manner as outlined in Exhibit 1 of this report under reporting procedures. The report maintains continuity of matters reported from year to year. Audit observations in our previous report which required further action are commented on again in this year's report, providing an updated position.

I also report that, in carrying on the work of my office, I received all the information and explanations I required.

INTRODUCTORY COMMENTS

As indicated in the Legal Provisions section of this report, section 13 of The Provincial Auditor's Act requires that the Provincial Auditor report annually to the Legislative Assembly on the work of his Office and that the report call attention to anything that the Provincial Auditor considers to be of significance and of a nature that should be brought to the attention of the Legislative Assembly. Accordingly, in reading this report it must be remembered that the matters reportable under section 13 are, or arise mainly from, administrative problems. This report, therefore, is a report by exception and as such cannot be a balanced report. As a consequence, the report emphasizes concerns, without recognizing situations where no serious concerns were observed. It is important to acknowledge that most audits for the 1985-86 fiscal year did not result in matters being noted which were considered to be of a nature to be reported to the Legislative Assembly.

Based on the work of my Office, I consider that the financial affairs of the Province were generally administered by public service managers in a satisfactory manner during the 1985-86 fiscal year. Mainly due to the continued efforts of Government and its managers to improve management processes and practices, the financial controls and records maintained by the Province have generally continued to improve. The positive response that our audit recommendations receive from all levels of management also contributes to this ongoing improvement. This general comment should not, however, detract from the importance of our observations and recommendations for improvement summarized under the "Summary of Matters of Concern and Recommendations" heading. These observations and recommendations are dealt with in greater detail in later sections of this report.

The various matters being reported on are covered in the following sections in this report:

Summary of Matters of Concern and Recommendations
Assets and Liabilities - Overview Comments
Operating Fund Assets and Liabilities
Trust Fund Assets and Liabilities
Revenue and Expenditure
Special Warrants
Government's Central Management System
Review of Government Control over Compensation by Crown Agencies
Government-Wide Reviews
Departments and Agencies Operations
Organization and Activities of the Provincial Auditor's Office
Acknowledgements

The report also includes 14 exhibits which provide additional information for matters commented on. A number of these exhibits are reproductions from the Public Accounts - the main financial statements and my report thereon.

As indicated in Exhibit 8 of this report, the financial statements of the Government of the Province of Manitoba for the fiscal year ended March 31, 1986 have been prepared under the direction of the Minister of Finance by staff of the Department of Finance in accordance with the provisions of the Financial Administration Act, and appear in Volume 1 of the Public Accounts. Those financial statements have been examined under my direction as required by section 14 of the Provincial Auditor's Act. My report on the financial statements is included as Exhibit 7 of this report.

SUMMARY OF MATTERS OF CONCERN AND RECOMMENDATIONS

A summary of the more significant matters of concern and recommendations included in the various sections of this report follows:

Revenue and Expenditure

Financial Statement Presentation - Accounting Policies

- The presentation of an amount called "Net Operating Deficit" on the statement of revenue and expenditure does not represent the excess of expenditure over revenue as determined in accordance with the Government's accounting policies. This type of presentation has not appeared in the Province's prospectuses used for borrowing funds, with the result that we have not qualified our opinion on prospectus material. We again recommend that presentation of the amount called "Net Operating Deficit" be discontinued and that steps be taken to develop supporting schedules which would provide full information on the effect of capital expenditures on Government operations. This has resulted in a qualification of my report on the Consolidated Fund financial statements.

- A more appropriate means of funding and disclosing losses on Crown corporation operations and allowances for non-recovery of other amounts due is required. Recognition and funding of these losses from a Government appropriation is recommended so that the operating losses of Crown corporations and other allowances are reflected in the statement of revenue and expenditure in Public Accounts. As a result of not following this recommendation, expenditures and the excess of expenditure over revenue have been understated by $69.9 million (1985 - $42 million), being the amount of the increase in the valuation allowance attributable to 1986 operations of $16.9 million, the write-down of the common shares of the Manitoba Development Corporation of $50 million and the write-off of the loan to the Canadian Co-operative Implements Ltd. of $3.0 million. There has been an improvement with regard to the presentation of the operating results for the year ending March 31, 1986 in that the increase in valuation allowance for investments and advances is included on the bottom of the statement of revenue and expenditure as part of the increase in the excess of liabilities over financial assets. However, in our opinion, for fair presentation this amount should be included in the actual statement of revenue and expenditure prior to the amount shown as the excess of expenditure over revenue. This has resulted in a qualification of my report on the Consolidated Fund financial statements. We have advised that the Government is acting on our recommendation.

- An inconsistency in application of the Government's valuation allowance policy has occured during the fiscal year ended March 31, 1986. The write-off of the investment of $.5 million in the Northlands Bank has not been disclosed as required by the accounting policy but has been included on the statement of revenue and expenditure before the excess of expenditure over revenue. Although we agree, as commented on in the paragraph above, that the charge to an appropriation in appropriate, this is not in accordance with the Government's accounting policy. This has resulted in a qualification of my report on the Consolidated Fund financial statements.

- The change in the basis of funding The Manitoba Agricultural Credit Corporation has given rise to a repayment to the Government. This amount represents the balance of the Corporation's estimated allowance for doubtful loan accounts as at March 31, 1985 which had been funded in prior years from an appropriation. This refund was applied as revenue of the Government for the fiscal year ended March 31, 1986. This treatment is inconsistent with the other prior years adjustments which were applied directly to the excess of liabilities over financial assets. This has resulted in a qualification of my report on the Consolidated Fund financial statements.

SUMMARY OF MATTERS OF CONCERN AND RECOMMENDATIONS

- The Government's payment of interest on surplus equity funds of the Manitoba Development Corporation on deposit with the Minister of Finance results in a duplication of interest charges in the Government's interest expense appropriation. While there has been some reduction recently in the amount of funds on deposit which generates this interest, the matter remains outstanding. We recommend that this matter be given further consideration and that steps be taken to eliminate the duplication of interest charges. We have been advised that a review is underway to consider how this matter can best be resolved.

- The basis of funding and accounting for pension costs has been inconsistent. For example, annual funding for pension costs of hospitals, municipalities and universities are reflected in the Public Accounts as expenditures through the transfer of sufficient funds to cover the employing authority's share of these costs as the benefits are earned. However, for teachers and the Province's own civil servants, pension costs are reflected as expenditures on a cash basis only to the extent of the Province's portion of payments required to be made to retired employees. While an actuarial determination of the extent of pension costs incurred pertaining to the benefits earned on an annual basis for teachers and civil servants has not been made, we estimate that pension costs for the year ended March 31, 1986 of approximately $92 million (1985 - $82 million) have not been reflected in the Public Accounts. Presentation of pension costs is a matter still to be addressed by the Public Sector Accounting and Auditing Committee established by the Canadian Institute of Chartered Accountants. This Committee is working, with significant input from the various governments in Canada, to develop recommendations and standards for Government accounting and auditing in Canada. We recommend that the Province take steps to have appropriate information developed for consistent disclosure of the employer's share of annual pension costs for inclusion in the Public Accounts.

Government's Central Management System

- A multi-year financial plan would be of considerable assistance to Legislators when reviewing the budget and Estimates. This plan would also be of assistance to individual departments in clarifying longer-term program priorities and objectives. We recommend that a multi-year financial plan be made available to Legislators. The Government has undertaken steps for determining the ramifications of adopting multi-year planning.

- Funds were again approved for certain job creation expenditures in a separate appropriation designated "Jobs Fund". While these expenditures have been allocated to three main sectors, details of programs planned or departments responsible for program delivery have not been provided. To improve legislative control over these expenditures, we recommend that an Estimates Supplement be prepared for the Jobs Fund appropriation, similar to that being phased in for operating departments. We have been advised that steps are being taken to implement our recommendation.

Review of Government Control Over Compensation By Crown Agencies

- There is no system in place to provide a rationale for the significant variations in the compensation levels of senior executives and managers between the various Crown agencies and between those agencies and the Civil Service. We recommend that the Government implement an administrative system to monitor the salaries of these senior executives and other managers. This system should include documentation of the rationale for the variations in compensation, and should be administered by an individual or central organization delegated by Government. The Department of Crown Investments is currently considering options with respect to this issue.

SUMMARY OF MATTERS OF CONCERN AND RECOMMENDATIONS

Government-Wide Reviews

- Departments which do not issue departmental annual reports do not fulfill the communication and accountability expectations for the funds provided to them. All departments should provide annual reports to the Legislature and hence to the public. The Government has provided direction to have all departments prepare annual reports.

Departments and Agencies Operations

Department of Education

- We have been reporting for several years that a change is needed to Regulation 12/81 to require municipalities to make more timely payments of school tax levies to school divisions and the Public Schools Finance Board. We again recommend that appropriate changes be made to this regulation as soon as possible to make the timing of remittances more in line with tax collections and to enable school divisions and the Public Schools Finance Board to avoid incurring unnecessary interest costs.

Department of Culture, Heritage and Recreation

- Payments have been made from a trust account administered by the Department of Culture, Heritage and Recreation in a manner which does not comply with the legislation establishing the trust accounts under The Manitoba Lotteries Foundation Act. Salaries and other administrative expenses of departmental employees in the amount of $1.2 million have been paid, directly from the trust accounts. This does not comply with the procedures prescribed in the Act.

Various Departments - Overexpenditures

- There were seventeen instances of expenditures in excess of legislative authority amounting to approximately $3.9 million in twelve departments.

MTX Telecom Services Inc.

- In our report last year we indicated that several key aspects of the management information system at MTX Telecom Services Inc. were not operating at a satisfactory level. We recommended that MTX strengthen the management accountability system through improvements to its planning, budgeting and financial reporting systems. Our review for the year ended March 31, 1986 indicates that the situation remains substantially unchanged. Since that time, the Government has taken steps to bring the records to a current position and has engaged a firm of management consultants to review the management practices and methods of operations of MTX. The Royal Canadian Mounted Police has been requested to review certain allegations of illegal activities related to MTX and its officials.

Workers Compensation Board

- Non-compliance with section 66(1) of The Workers Compensation Board Act in setting rates has resulted in the Board incurring substantial deficits in the Class Fund. The Government has recently appointed a committee to review the compensation system in Manitoba. We are hopeful that the Committee will complete its review on a timely basis and that the review will result in recommendations which, when implemented, will bring the Board's activities into compliance with legislation and result in the adoption of a sound fiscal policy for funding the Board's operations.

ASSETS AND LIABILITIES - OVERVIEW COMMENTS

Accounting policies

The Government of the Province of Manitoba operates with a Consolidated Fund concept. This Fund is comprised of two sections: the Operating Fund section, which reflects the operational activities and financial position of the Government, and the Trust Fund section, which reflects the trust administrative function that the Government provides to its agencies. The accounting policies adopted by the Government of the Province of Manitoba for the fiscal year ended March 31, 1986 are reproduced in Exhibit 13 of this report.

The Government of the Province of Manitoba has made a number of significant changes in its financial reporting in Public Accounts. These changes have resulted in the development of summary financial statements. These summary financial statements report on the Government's financial position and results of operations and provide an overview of the supporting information in Public Accounts. The summary financial statements enable a reader to have a better understanding of the financial position of the Government, its operating results and other information relevant to its activities. The Government has also implemented further important aspects of accrual accounting to recognize better its position in respect to foreign currency, investment and debt transactions. These changes constitute significant steps in recognizing the recommendations and work being performed by the Public Sector Accounting and Auditing Committee of The Canadian Institute of Chartered Accountants in the development of general standards of accounting and financial statement presentation for governments.

The changes adopted this year recognize unrealized foreign currency losses pertaining to the Public Debt and adopt accrual accounting principles regarding investment and debt-related transactions. The accounting policy changes will more clearly recognize the results of events in the fiscal year that they occur. As a result of the changes in accounting policies, a prior years' adjustment of $189.5 million was required to increase the Excess of Liabilities over Financial Assets. The adjustment is comprised of the following (*in millions of dollars*):

Provision for unrealized foreign currency losses	$ 256.4
Amortization of debt issue costs	(27.7)
Amortization of (discount)/premium on Sinking Fund investments	(19.5)
Accrual of interest earned on advances and investments	(24.2)
Accrual of interest payable on trust funds	4.5
	$ 189.5

Because prior year comparative amounts were not reasonably determinable, the changes in policies have not been made on a retroactive basis. Accordingly, certain of the March 31, 1985 amounts are not comparable with those for the year ended March 31, 1986.

Details concerning the changes in accounting policy are provided in Exhibit 13 of this report and the prior years' adjustment resulting from the changes in accounting policies is reflected in Exhibit 10 and included in note 10 of Exhibit 12 of this report. A great deal of attention is currently being given to the development of general standards of financial statement presentation for governments, and it is expected that further changes in the Government's financial statements will be made as the general standards develop.

A summary of the liabilities and financial assets of the Operating Fund, together with the supporting schedules and notes is reproduced in Exhibits 9 to 13 of this report.

ASSETS AND LIABILITIES - OVERVIEW COMMENTS

Operating fund assets and liabilities

The total liabilities at March 31, 1986 increased by $1,013.1 million from the preceding year-end, from $5,542.1 million to $6,555.2 million. The increase mainly resulted from net increases in public debt of $782 million, and recognition of unrealized foreign currency losses of $256 million effective at the beginning of the year, with a balance of $209 million at the year-end as a result of adoption of a new accounting policy during the year. Other factors were increases in accounts payable and other liabilities of $59 million, which were offset by trust funds used for operations, which decreased by $38 million. The new accounting policies also provide for the amortization of debt issue costs over the term of the debt.

The increase in total liabilities of $1,013.1 million is offset by changes to assets and other accounts as follows *(in millions of dollars)*:

Increases:	
Excess of expenditure over revenue for the year ended March 31, 1986	$528.3
Advances to and investments in Government agencies	474.6
Loans, advances and investments to others	18.9
Securities received from the sale of land and buildings to Manitoba Properties Inc. - see comments under the heading Manitoba Properties Inc. in the Operating Fund Assets and Liabilities section	52.7
Revenue receivable	44.9
Write-down of common shares of the Manitoba Development Corporation	50.0
Write-off of loan to Canadian Co-operative Implements Ltd.	3.0
Net adjustment arising from accounting policy changes during the year - see comments under the heading Accounting Policies	189.5
	1,361.9
Decreases:	
Excess of Liabilities over Financial Assets - being proceeds from sale of land and buildings to Manitoba Properties Inc. - see comments under the heading Manitoba Properties Inc. in the Operating Fund Assets and Liabilities section	251.9
Cash and equivalents	83.8
Principal repayments on Serial Debentures transferred from The Manitoba School Capital Financing Authority	13.1
	348.8
	$1,013.1

Further particulars on these matters are included in the Operating Fund Assets and Liabilities section of this report.

ASSETS AND LIABILITIES - OVERVIEW COMMENTS

Guaranteed debt and indirect liabilities

The guaranteed debt and indirect liabilities, reflected in note 4 of Exhibit 12, increased by $72.3 million at March 31, 1986 from the preceding year-end, from $1,608.8 million to $1,681.1 million. The net increase is accounted for as follows *(in millions of dollars)*:

Preferred shares issued by Manitoba Properties Inc.	$ 121.0
Issue of guaranteed debt:	
Manitoba Telephone System	33.6
Manitoba Hydro-Electric Board	6.0
Refinancing of Government agency guaranteed debt by way of direct debt of the Province	(138.2)
Retirement of maturing debt	(29.4)
Decrease in sinking funds and other related trust funds	79.3
Net increase	$ 72.3

Further particulars on these matters are included in the Operating Fund Assets and Liabilities section of this report.

Trust fund assets and liabilities

The trust fund assets and liabilities are stated in the Public Accounts, and are reproduced in note 13 of Exhibit 12 of this report.

The trust fund assets and liabilities are segregated into two categories: Administered Trust Funds and Custodial Trust Funds.

The Administered Trust Funds decreased by $10.1 million at March 31, 1986 from the preceding year-end, from $1,067.5 million to $1,057.4 million. The net decrease consisted of the following *(in millions of dollars)*:

Funds deposited with the Minister of Finance for investment	$ 10.4
Sinking funds for securities issued by Government agencies	(3.7)
Miscellaneous trust accounts	3.4
Net decrease	$ 10.1

The Custodial Trust Funds increased by $71.7 million at March 31, 1986 from the preceding year-end, from $458.0 million to $529.7 million. The net increase consisted of the following *(in millions of dollars)*:

Civil Service Superannuation Fund	$ 73.1
Workers Compensation Board	(1.7)
Miscellaneous, net	.3
Net increase	$ 71.7

Further particulars are included in the Trust Fund Assets and Liabilities section of this report.

OPERATING FUND ASSETS AND LIABILITIES

Working Capital

The particulars of the working capital are as follows (*in millions of dollars*):

	March 31 1986	1985	Increase (Decrease)
Assets			
Cash and equivalents	$ 552.0	$ 635.8	$ (83.8)
Current amounts due from Canada and other external sources	138.0	93.1	44.9
	690.0	728.9	(38.9)
Liabilities			
Amount owing to the Trust Fund	487.9	525.9	(38.0)
Accounts payable, accrued charges and funds subject to call	294.2	234.6	59.6
	782.1	760.5	21.6
Working capital deficiency	$ 92.1	$ 31.6	$ 60.5

The cash flow, except for bank short-term borrowing and trust funds, is generally consistent from year to year. The increasing excess of liabilities over financial assets has a significant impact on cash flow requirements. The ratio of assets to liabilities is mainly dependent on the timing of long-term borrowing to refinance short-term bank borrowing. There can also be fluctuations in the amount of trust funds used depending on their availability.

In addition to the current amounts due from Canada and other external sources of $138.0 million at March 31, 1986 ($93.1 million at March 31, 1985) shown above, amounts receivable from other governments and other third parties totalling $97.3 million at March 31, 1986 ($77.9 million at March 31, 1985) are included in the Public Accounts in the loans and advances amount on the operating fund statement of financial position. All these accounts are considered to be fully collectible, after taking into consideration the valuation allowance.

OPERATING FUND ASSETS AND LIABILITIES

Loans and Advances

The total loans and advances, reflected in the Operating Fund Statement of Financial Position and Schedule 2, increased by $515 million at March 31, 1986 from the preceding year-end, from $2,220 million to $2,735 million. The valuation allowance concerning loans and advances and long-term investments also increased significantly, by $19.3 million from the preceding year-end, from $173.6 million as at March 31, 1985 to $192.9 million as at March 31, 1986.

Investments in Government agencies are the same as advances except that they are covered by legal instruments consisting of debentures and shares.

The more significant increases pertain to loans and advances to Government agencies. The particulars of the more significant net changes in loans and advances, valuation allowance and sinking funds are as follows (*in millions of dollars*)

	March 31		Increase
	1986	1985	(Decrease)
Government agencies:			
Loans and Advances	$ 2,637.3	$ 2,141.8	$ 495.5
Investments	283.4	291.6	(8.2)
	2,920.7	2,433.4	487.3
Other investments:			
Tantalum Mining Corporation of Canada Limited	3.3	3.3	-
Northlands Bank	-	.5	(.5)
	2,924.0	2,437.2	486.8
Less:			
Valuation allowance	156.7	151.5	5.2
Sinking funds of Government agencies on account of debt incurred by the Province	114.8	102.2	12.6
	$ 2,652.5	$ 2,183.5	
Net change			$ 469.0

OPERATING FUND ASSETS AND LIABILITIES

The net change of $469.0 million by agency is as follows (*in millions of dollars*):

Agency	Loans Advances and Investments	Less: Valuation Allowance	Less: Sinking Funds	Net Change
Manfor Ltd.	$ 36.3	$ 36.4		$ (.1)
Manitoba Agricultural Credit Corporation	19.2	4.7		14.5
Manitoba Crop Insurance Corporation	(3.0)	(3.0)		-
Manitoba Data Services	(1.4)			(1.4)
Manitoba Development Corporation	(47.7)	(41.2)		(6.5)
Manitoba Energy Authority	1.2	1.2		-
Manitoba Housing and Renewal Corporation	52.5	1.4	.6	50.5
Manitoba Hydro-Electric Board	350.9		12.4	338.5
Manitoba Mineral Resources Ltd.	.6	(.9)		1.5
Manitoba Oil and Gas Corporation	5.0	.1		4.9
Manitoba Properties Inc.	5.0	5.0		-
Manitoba Telephone System	67.9		(.4)	68.3
Manitoba Water Services Board	(1.0)	(.6)		(.4)
Venture Manitoba Tours Ltd.	1.7	1.5		.2
Other	(.4)	.6		(1.0)
Increase	$ 486.8	$ 5.2	$ 12.6	$ 469.0

During the year, the Government of the Province of Manitoba changed the basis for funding The Manitoba Agricultural Credit Corporation; it discontinued funding for the Corporation's estimated allowance for doubtful accounts. However, the Government in funding uncollectible amounts written-off. The adoption of the revised funding basis resulted in the establishment of a valuation allowance regarding the Government's advances to The Manitoba Agricultural Credit Corporation and the deferral of estimated expenditure of $4.7 million. Further details concerning this matter are included in the Revenue and Expenditure section of this report.

The principal repayments and/or interest charges for some of the advances are dependent on total or partial funding from future appropriations of the Consolidated Fund. The major agencies to which this applies are the Manitoba Housing and Renewal Corporation, for most of the principal and interest funding, and The Manitoba Agricultural Credit Corporation, for partial interest funding.

OPERATING FUND ASSETS AND LIABILITIES

Manitoba Properties Inc.

During the year ended March 31, 1985 the Province passed legislation which enabled it to raise approximately $278.2 million of its financing requirements in that year through an indirectly wholly-owned Corporation, Manitoba Properties Inc. In 1985 the Province sold certain of its land and buildings to the Corporation and entered into a 99 year lease-back arrangement with the Corporation. The financing for this transaction included the issuing of preferred shares by the Corporation. Each of these preferred shares included a warrant which allowed the shareholder to purchase an additional preferred share for $25 until July 15, 1985. The exercising of these warrants raised a further $121.0 million and resulted in the further sale of the Province's land and buildings. The total of the shares issued and capitalization of the company as at March 31, 1986 was $399.2 million.

We had recommended improvements to the presentation of these financial transactions in the Government's accounts. To provide a more complete overview of the financial position of the Province, we had recommended that the Government adopt the practice of either including statements in the Public Accounts showing the accounts of Manitoba Properties Inc. consolidated with the Public Accounts, or that a statement showing the effect of consolidating the above transactions be included in the Public Accounts as further pertinent information. The Government has acted on our recommendation. Note 3 to the financial statements as reproduced in Exhibit 12 provides information on the effects of consolidation on the Public Accounts which would result from the accounts of Manitoba Properties Inc. being consolidated with the Consolidated Fund. Consolidations are undertaken to eliminate the effects of aspects of operations between the entities other than those affecting third parties. Consolidation of these activities, as set out in note 3, would have the following effects *(in millions of dollars)*:

	1986	1985
Increase		
Expenditure	$ 2.8	$ 7.2
Excess of Expenditure over Revenue	2.8	7.2
Direct adjustment to Excess of Liabilities over Financial Assets (Sale of Assets)	251.9	323.7
Balance forward	330.9	-
Excess of Liabilities over Financial Assets	$ 585.6	$ 330.9

In addition to the foregoing, consolidation would increase direct debt by $399.2 million to recognize the eventual need for the redemption of preferred shares of Manitoba Properties Inc., with an equivalent decrease in guaranteed and indirect liabilities.

OPERATING FUND ASSETS AND LIABILITIES

Excess of Liabilities over Financial Assets

Changes in the excess of liabilities over financial assets, by its two components, are as follows (*in millions of dollars*):

	March 31 1986	March 31 1985	Increase (Decrease)
Accumulation of the excess of expenditure over revenue and advances to and investments in Government agencies written-off:			
Balance at beginning of year	$ 2,082.4	$ 1,923.6	$ 158.8
Prior year's adjustments, pertaining to adoption of recommended accounting policies:			
Foreign currency losses	256.4	-	256.4
Accrued interest payable - trust funds	4.5	-	4.5
Accrued interest receivable - advances and investments	(24.2)	-	(24.2)
Amortization of investment (discount)/premium on Province of Manitoba Sinking Fund	(19.5)	-	(19.5)
Amortization of debt issue costs on Province of Manitoba borrowings	(27.7)	-	(27.7)
Write-down of Manitoba Development Corporation common shares	50.0	-	50.0
Write-off of loan to Canadian Co-operative Implements Ltd.	3.0	-	3.0
Proceeds from the sale of land and buildings to Manitoba Properties Inc.	(251.9)	(323.7)	71.8
Adjusted balance	2,073.0	1,599.9	473.1
Excess of expenditure over revenue for the year	528.3	482.5	45.8
Balance at end of year	2,601.3	2,082.4	518.9
Valuation allowance:			
Balance at beginning of year	173.6	131.6	42.0
Changes for the year	19.3	42.0	(22.7)
Balance at end of year	192.9	173.6	19.3
Excess of liabilities over financial assets, balance at end of year	$ 2,794.2	$ 2,256.0	$ 538.2

The balance of the first component of the excess of liabilities over financial assets of $2,598.3 million as at March 31, 1986 ($2,082.4 million as at March 31, 1985) is an accumulation of net expenditures for lasting tangible assets, lasting intangible benefits and accumulated excess of expenditure over revenue which were funded by public debt to be serviced from future revenues. This accumulation includes a reduction of $251.9 million from the sale of land and buildings to Manitoba Properties Inc. during 1985-86 ($323.7 during 1984-85).

OPERATING FUND ASSETS AND LIABILITIES

The particulars of the balance of the valuation allowance of government agencies for the year ended March 31, 1985, changes during the year and balance as at March 31, 1986 are as follows (*in millions of dollars*):

	Balance 1985	March 31 Changes 1986	Balance 1986
A. E. McKenzie Co. Ltd.	$ .1	$ -	$ .1
Manfor Ltd.	89.8	36.4	126.2
Manitoba Agricultural Credit Corporation	-	4.7	4.7
Manitoba Crop Insurance Corporation	3.0	(3.0)	-
Manitoba Development Corporation (applicable to losses of Flyer Industries Ltd. and A. E. McKenzie Co. Ltd.)	51.3	(41.2)	10.1
Manitoba Energy Authority	.6	1.2	1.8
Manitoba Housing and Renewal Corporation	-	1.4	1.4
Manitoba Mineral Resources Ltd.	3.4	(.9)	2.5
Manitoba Oil and Gas Corporation	.5	.1	.6
Manitoba Properties Inc.	-	5.0	5.0
Manitoba Water Services Board	2.5	(.6)	1.9
Venture Manitoba Tours Inc.	.3	1.5	1.8
Leaf Rapids Town Properties Ltd.	-	.6	.6
	$ 151.5	$ 5.2	$ 156.7

As indicated in the accounting policies, the basis for establishing the valuation allowance has been broadened during the fiscal year ended March 31, 1986. The particulars of the balance of the valuation allowance for other loans, advances and investments are as follows (*in millions of dollars*):

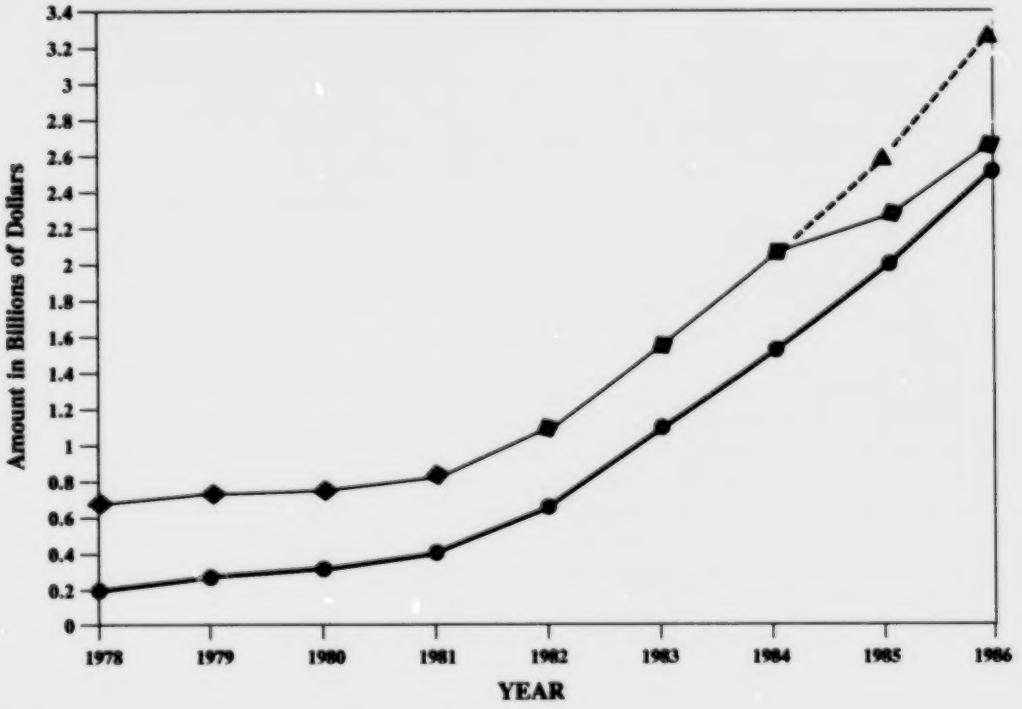
	Balance 1985	March 31 Changes 1986	Balance 1986
Manitoba Beef Stabilization Fund	$ 15.8	$ 11.4	$ 27.2
Manitoba Hog Producers' Marketing Board	6.3	(.8)	5.5
Insulation Loan Program	-	.5	.5
Emergency Interest Rate Relief Program	-	.6	.6
Venture Capital Program	-	.8	.8
Film Support Program	-	.1	.1
Tantalum Mining Corporation of Canada Limited	-	1.5	1.5
	$ 22.1	$ 14.1	$ 36.2

In establishing the change in valuation allowance for the government agencies, the valuation is based upon the most recent audited financial statements available at the time of preparation of Public Accounts. Although this measurement basis is objective, it does not take into consideration the additional loss which may result as a consequence of the Government being required to honour guarantees. Note 4 of Exhibit 12 provides information regarding the Government's guarantees and further details are provided in Section 3 of Public Accounts. In situations where the continued existence of a government agency is unclear, we recommend that the valuation allowance basis be broadened to reflect these special conditions.

OPERATING FUND ASSETS AND LIABILITIES

A graphic presentation of the history of the excess of liabilities over financial assets related to the reported results of operations, is set out below as information.

PROVINCE OF MANITOBA



Legend:

- ● = cumulative reported excess of expenditure over revenue for the fiscal years ended March 31, 1978 to 1986 inclusive
- ◆ = reported excess of liabilities over financial assets
- ▲ = reported excess of liabilities over financial assets with consolidation of the effect of Manitoba Properties Inc. on the excess account

The above graph reflects a comparison of the cumulative effect of the reported annual operating results, the excess of expenditure over revenue, and the reported excess of liabilities over financial assets. As indicated in the graph, the increase in the accumulated annual operating results generally parallels the increase in the excess of liabilities over financial assets, with the exception of the adjustment arising from the sale of land and buildings to Manitoba Properties Inc. This one adjustment has had a significant effect in reducing the excess account. Although other adjustments have also been applied directly to the excess of liabilities over financial assets and not processed through the revenue and expenditure accounts, from a graphic perspective, their overall effect has not been particularly significant.

OPERATING FUND ASSETS AND LIABILITIES

Direct Public Debt

A summary of direct public debt and other related information is provided (*in millions of dollars*). Foreign debt is stated at exchange rates at the date the debt was incurred.

Direct public debt, net of sinking funds:

	March 31		
	1986	1985	Increase
Bonds, debentures and other debt instruments	$ 6,493.2	$ 5,471.3	$ 1,021.9
Less debentures issued under financial assistance agreements, see particulars below	29.5	29.5	-
	6,463.7	5,441.8	1,021.9
Less: Sinking funds	871.7	660.1	211.6
Unamortized debt issue costs	27.7	-	27.7
	899.4	660.1	239.3
	$ 5,564.3	$ 4,781.7	$ 782.6

In accordance with agreements, between the Province and the Credit Union Stabilization Fund for $25.0 million and between the Province and Les Fonds de Sécurité des Caisses Populaires for $4.5 million, debentures of $29.5 million were issued in 1982-83. These debentures are being held by the Province to be cancelled at maturity, July 7, 1987. The purpose of these debentures is to provide annual grants to the aforementioned entities equal to the annual interest of 14 7/8 percent stated for the debentures. The annual payments are charged as public debt costs in the Department of Finance and subsequently recovered by a charge to an appropriation voted for this purpose in the Department of Co-operative Development.

The direct public debt is repayable in the following currencies (*in millions of dollars*):

	March 31		Increase
Type of Currency	1986	1985	(Decrease)
Canadian Dollars	$ 3,419.6	$ 2,902.8	$ 516.8
Foreign debt stated at exchange rates at the date the debt was incurred:			
United States Dollars	1,464.1	1,321.6	142.5
Swiss Francs	606.1	509.0	97.1
Japanese Yen	709.9	511.9	198.0
Deutsche Marks	289.2	187.3	101.9
European Units of Account	4.3	38.7	(34.4)
	3,073.6	2,568.5	505.1
	$ 6,493.2	$ 5,471.3	$ 1,021.9
Foreign debt calculated at exchange rates at each year-end	$ 3,819.2	$ 2,768.4	$ 1,050.8

OPERATING FUND ASSETS AND LIABILITIES

A provision for unrealized foreign currency losses has been made as a result of a change in accounting policy during the fiscal year ended March 31, 1986. This change has been made on a moving average basis to reflect the fluctuation in currency values between the debt issuance and maturity dates. An adjustment of $256.4 million has been made to establish the required provision as at March 31, 1985; during the fiscal year a further provision of $15.8 million was charged to operations for the current year, and $62 million was applied to the provision account as a result of repayment of existing debt.

Foreign debt due within the next three fiscal years, comparing book value with value at exchange rates at March 31, 1986 (rated value) is as follows (*in millions of dollars*):

	March 31					
	1987		1988		1989	
Type of Currency	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
European Units of Account	$ 1.1	$ 2.9	$ 1.1	$ 2.9	$ 1.1	$ 2.9
Japanese Yen	33.5	65.9	6.9	9.2	23.7	35.2
Swiss Francs	6.3	11.5	6.3	11.5	116.7	143.2
United States Dollars	27.0	35.4	16.0	19.6	105.4	124.4
	$ 67.9	$115.7	$ 30.3	$ 43.2	$246.9	$305.7

OPERATING FUND ASSETS AND LIABILITIES

Guaranteed Public Debt

The summary of guaranteed public debt and other related information is as follows (*in millions of dollars*):

Guaranteed public debt, net of sinking funds:

	March 31		Increase
	1986	1985	(Decrease)
Securities guaranteed	$ 1,943.4	$ 1,950.4	$ (7.0)
Less sinking funds and other related trust funds	262.3	341.6	(79.3)
	$ 1,681.1	$ 1,608.8	$ 72.3

The decrease in guaranteed public debt of $7.0 million is accounted for as follows (*in millions of dollars*):

Manitoba Properties Inc.	
This represents the total of the 9 1/4% cumulative redeemable, retractable Series A preferred shares issued and warrants exercised as at March 31, 1986, as explained under the heading Manitoba Properties Inc.	$ 121.0
Increase in guaranteed debt:	
Manitoba Telephone System	33.6
Manitoba Hydro-Electric Board	6.0
	39.6
	160.6
Less:	
Refinanced by an increase in the direct debt of the Province:	
Manitoba-Hydro Electric Board	138.2
Repaid from Sinking Funds and/or by cash:	
University of Manitoba	.1
Manitoba Hydro-Electric Board	28.4
Other	.9
	29.4
	167.6
Net decrease	$ 7.0

OPERATING FUND ASSETS AND LIABILITIES

The guaranteed debt is repayable in the following currencies (*in millions of dollars*):

Type of Currency	March 31 1986	1985	Increase (Decrease)
Canadian Dollars	$ 1,078.6	$ 953.3	$ 125.3
Foreign debt stated at exchange rates at the date the debt was incurred:			
United States Dollars	772.5	930.9	(158.4)
Swiss Francs	85.3	56.1	29.2
Deutsche Marks	7.0	9.2	(2.2)
Pounds Sterling	-	.9	(.9)
	864.8	997.1	(132.3)
	$ 1,943.4	$ 1,950.4	$ (7.0)
Foreign debt calculated at exchange rates at each year-end	$ 1,208.1	$ 1,364.0	$ (155.9)

Guaranteed foreign debt due within the next three fiscal years, comparing book value with value at exchange rates at March 31, 1986 (rated value) is as follows (*in millions of dollars*):

	March 31 1987		1988		1989	
Type of Currency	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
United States Dollars	$ -	$ -	$26.9	$34.9	$ -	$ -
Deutsche Marks	2.3	4.5	4.6	8.9	-	-
	$2.3	$4.5	$31.5	$43.8	$ -	$ -

Included in the guaranteed debt are amounts which are essentially the same as direct debt since they are serviced from the Consolidated Fund. These amounts consist of the following (*in millions of dollars*):

	March 31 1986	1985	Increase (Decrease)
Manitoba Properties Inc.	$ 399.2	$ 278.2	$ 121.0
University of Manitoba	13.2	13.3	(.1)
Various hospitals and other institutions	.5	1.3	(.8)
	$ 412.9	$ 292.8	$ 120.1

OPERATING FUND ASSETS AND LIABILITIES

Combined Direct and Guaranteed Public Debt

Combined direct and guaranteed public debt, net of sinking funds, other related trust funds, debentures issued under financial assistance agreements and unamortized debt issue costs, is as follows (*in millions of dollars*):

	March 31		Increase
	1986	1985	(Decrease)
Direct	$ 6,493.2	$ 5,471.3	$ 1,021.9
Guaranteed	1,943.4	1,950.4	(7.0)
	8,436.6	7,421.7	1,014.9
Less:			
Sinking funds:			
Direct	871.7	660.1	211.6
Guaranteed	262.3	260.0	2.3
Other related trust funds	-	81.6	(81.6)
Unamortized debt issue costs	28.0	-	28.0
Debentures issued under financial assistance agreements(see particulars under Direct Public Debt)	29.5	29.5	-
	1,191.5	1,031.2	160.3
	$ 7,245.1	$ 6,390.5	$ 854.6

OPERATING FUND ASSETS AND LIABILITIES

The combined direct and guaranteed debt, net of sinking funds, other related trust funds, and debentures issued under financial assistance agreements, is summarized below by sources of servicing *(in millions of dollars)*:

Serviced from	March 31 1986	March 31 1985	Increase (Decrease)
Consolidated Fund:			
Fully re:			
General purposes	$ 2,975.2	$ 2,740.6	$ 234.6
Manitoba Properties Inc.	399.2	200.1	199.1
	3,374.4	2,940.7	433.7
Mainly re:			
Manfor Ltd.	81.9	36.5	45.4
Manitoba Beef Stabilization Fund	21.0	10.0	11.0
Manitoba Mineral Resources Ltd.	8.4	8.4	-
Manitoba Hog Income Stabilization Plan	7.6	5.0	2.6
Manitoba Oil and Gas Corporation	5.0	5.0	-
Other	2.5	3.4	(.9)
	126.4	68.3	58.1
Partially re:			
Manitoba Agricultural Credit Corporation	188.9	146.7	42.2
Manitoba Housing and Renewal Corporation	107.8	103.4	4.4
Emergency Interest Rate Relief Program	9.0	9.0	-
University of Manitoba	6.3	7.6	(1.3)
Manitoba Data Services	5.1	6.5	(1.4)
	317.1	273.2	43.9
	3,817.9	3,282.2	535.7
Other funds:			
Manitoba Hydro-Electric Board	2,673.2	2,493.1	180.1
Manitoba Telephone System	595.9	494.0	101.9
Manitoba Water Services Board	16.3	16.2	.1
Other	10.6	11.6	(1.0)
	3,296.0	3,014.9	281.1
Manitoba Jobs Fund:			
Mainly	23.7	21.7	2.0
Partially	74.5	57.2	17.3
Other	10.1	.8	9.3
Debt service costs	.2	-	.2
Money raised but unexpended	50.7	13.7	37.0
	159.2	93.4	65.8
	7,283.1	6,390.5	882.6
Less: Unamortized debt issue costs	28.0	-	28.0
Totals	$ 7,245.1	$ 6,390.5	$ 854.6

OPERATING FUND ASSETS AND LIABILITIES

Sinking Funds

A summary of sinking funds is as follows (*in millions of dollars*):

Sinking funds applicable to:

	March 31 1986	1985	Increase
Direct public debt	$ 871.7	$ 660.1	$ 211.6
Guaranteed public debt	262.3	260.0	2.3
Agencies' non-guaranteed debt	5.8	4.4	1.4
	$ 1,139.8	$ 924.5	$ 215.3

Sinking funds were invested as follows:

	March 31 1986	1985	Increase
Internal securities:			
Province of Manitoba	$ 217.8	$ 211.2	$ 6.6
Manitoba Hydro-Electric Board	245.8	239.8	6.0
Manitoba Telephone System	49.0	45.2	3.8
University of Manitoba	4.9	4.6	.3
	517.5	500.8	16.7
Other securities	364.0	207.5	156.5
Short-term investments	258.3	216.2	42.1
	$1,139.8	$ 924.5	$ 215.3

The sinking funds are maintained in accordance with legal requirements. They are basically being maintained by way of borrowing to provide funds for clearing the market of Manitoba securities, thereby placing the Province in a stronger marketing position. Government of Manitoba securities are being purchased before maturity by the Department of Finance at prices approved by the Deputy Minister of Finance. The short-term investments represent funds being used as working capital by the Province for which the Province's regular rates of interest are applied as earnings for the various sinking funds.

Commitments and Contingent Liabilities

The particulars of the more significant commitments and contingent liabilities are as follows:

Commitments

Commitments for housing

The Manitoba Housing and Renewal Corporation is indebted to the Canada Mortgage and Housing Corporation (C.M.H.C.) for $231.7 million as at March 31, 1986 ($234.0 million as at March 31, 1985).

This long-term financing relates to the 90% capital funding of public housing projects provided by C.M.H.C. The annual operating costs of these housing projects, including debt servicing costs, less rental recoveries, are shared equally between Canada and Manitoba. Manitoba's share of this public housing program subsidy amounted to $14.7 million for the year ended March 31, 1986 ($15.7 million restated for March 31, 1985).

OPERATING FUND ASSETS AND LIABILITIES

Commitments for employee pension benefits

In accordance with legislation the Province is required to contribute on a matching basis, one-half of the pensions paid by the Civil Service Superannuation Fund (with the exception of the share payable by agencies for their retired employees) and one-half of the pensions paid by the Teachers' Retirement Allowances Fund. There are also provisions in the legislation for adjustment payments. The matching and adjustment payments made by the Province for the last two fiscal years were as follows (*in millions of dollars*):

	March 31		
	1986	**1985**	**Increase**
Civil Service Superannuation Fund	$ 10.7	$ 9.5	$ 1.2
Teachers' Retirement Allowances Fund	18.6	16.6	2.0
	$ 29.3	$ 26.1	$ 3.2

In accordance with a formula supplied by the Fund's actuary, the actuarial liability of the Government of the Province of Manitoba to the Civil Service Superannuation Fund has been calculated to be $284.7 million as at December 31, 1985 ($249.7 million as at December 31, 1984). There has been no actuarial liability of the Province determined for the Teachers' Retirement Allowances Fund, but we agree with the Department of Finance estimate that it would approximate the total of the employees' fund which amounted to $412.7 million as at December 31, 1985 ($358.7 million as at December 31, 1984).

To provide an estimate of the annual pension cash requirement, the actuary prepared a 25 year cash projection regarding the Civil Service Superannuation Fund, commencing with the year 1978 and concluding with the year 2002. Based on a constant membership, the projection indicated the employer's annual pension payments as a percentage of salaries to be 1.5 percent in 1978, progressively increasing to 7.2 percent in 2002. The actuarial projections vary somewhat from the actual experience, but, after taking into account the variable factors, the actual experience appears to parallel the actuarial projections reasonably closely. The Teachers' Retirement Allowances Fund's percentage of pension payments to total salaries is higher than that of the Civil Service Superannuation Fund because the former plan is older and more mature.

	March 31		
	1986	**1985**	**Increase**
The actual payments shown above as a percentage of total salaries are as follows:	%	%	%
Civil Service Superannuation Fund	2.92	2.64	.28
Teachers' Retirement Allowances Fund	3.60	3.36	.24

Amendments were made to the Pension Benefits Act during 1983, and subsequently, which provided improvements to pensions and substantially increased the Province's pension liabilities for both Funds. We have been informed by the actuary that these changes will cause the annual employer's pension payments to increase considerably above those originally projected over the next few years. In view of these changes, we previously recommended that the cash projection previously done by the actuary be updated at some appropriate point in the future. This matter is under consideration but a review has not been scheduled to date.

OPERATING FUND ASSETS AND LIABILITIES

The Government of the Province of Manitoba, its Crown corporations and agencies generally recognize the employer's portion of pension contributions in their financial statements after employee retirement or termination. Some Crown agencies disclose information regarding the actuarial estimate of unfunded pension liability only by notes to their financial statements. In recent years, several Crown agencies have adopted accounting policies to recognize pension costs in their accounts as pension benefits are earned. This has resulted in a number of different accounting treatments being followed for pension costs and inconsistencies regarding the funding of these pension liabilities. In view of the variety of accounting policies and funding bases developed regarding pensions, we recommended that a review be completed, and that standard guidelines be developed and communicated to the various corporations and agencies. Department of Finance staff are in the process of completing a review of the pension options available, and a recommendation will be made.

We believe that the Public Accounts of the Province should reflect the economic reality of the costs of pension plans and other staff benefits in the Consolidated Fund operating results. Currently, the Public Accounts reflect these pension plan costs on an inconsistent basis. For example, the full cost of pension entitlements earned during a fiscal year are recognized in the Public Accounts for such entities as hospitals, municipalities, and universities through the transfer of funds to these entities on an annual basis. However, the same is not true for the cost of pension entitlements earned during a fiscal year by school teachers and the Province's own civil servants. For these groups, the Public Accounts reflect only the Province's share of the amount required to be paid during the year to retired employees.

An actuarial determination of the annual pension entitlements earned by teachers and the Province's civil servants has not been made, but we estimate that the pension costs not reflected in the financial statements for the year ended March 31, 1986 exceed $92 million (1985 - $82 million). These estimates, except for the Teachers' Retirement Allowances Fund, are based on a formula provided by the Province's actuary, and take into account the unfunded liabilities disclosed in the financial statements of Crown agencies. The following table shows the Government's estimated liabilities from inception for total pension costs incurred but not paid for a partial list of entities whose pension plans directly affect the Consolidated Fund.

	Estimated Liabilities for Pension Costs			
	December 31			%
	1985	1984	Increase	Increase
Entity:				
Teachers' Retirement Allowances Fund	$ 413	$ 359	$ 54	15.0
Provincial Civil Service	285	250	35	14.0
Liquor Control Commission	13	12	1	8.3
Manitoba Health Services Commission	12	10	2	20.0
	$ 723	$ 631	$ 92	14.6

While an actuarial valuation would undoubtedly result in revision to these amounts, we believe that they serve to provide a reasonable estimate of the order of magnitude of pension costs not reflected in the Public Accounts.

We are concerned that the failure to reflect these costs in the Public Accounts could have a negative influence with bond rating agencies. We believe that inclusion of these pension costs would provide a more realistic measure of the costs incurred in delivering government programs, and would significantly enhance the usefulness of the Public Accounts. We recommend that steps be taken to recognize these costs in the Public Accounts. We further recommend that a review be conducted to determine a reasonable method of recognizing the annual cost of benefits as they are earned together with an appropriate method for recognizing the unfunded actuarial liability incurred to date.

This review should be extended to include consideration of inclusion of the annual costs of other employee benefits earned such as vacation and severance pay on a more appropriate basis.

Commitments for financing of hospitals and personal care homes

Hospitals and personal care homes have obtained financing for capital construction by issuing debentures, or arranging for mortgages or long-term bank loans. The Hospital Capital Financing Authority, which was established in 1972, approves the issue of all securities to finance these capital expenditures and assists in obtaining an orderly market for the sale of the securities. The Manitoba Health Services Commission has arranged with hospitals and personal care homes to fund the approved debt as long as the facilities are operated under The Health Services Insurance Act (Manitoba). Funds for servicing the approved debt are provided from an appropriation of the Consolidated Fund and included in the expenditure of the Manitoba Health Services Commission.

As at March 31, 1986, the approved outstanding net capital debt of hospitals and personal care homes was $297.8 million (1985 - $301.5 million), being $283.2 million in Canadian dollars and $10.5 million in United States dollars converted to Canadian dollars at the March 31, 1986 exchange rate. This includes $20.5 million (1985 -$18.6 million) in National Housing Act mortgages which are subsidized by the Canada Mortgage and Housing Corporation.

In addition to the above net outstanding debt, lines of credit up to $126.5 million (1985 - $55.7 million) have been approved to finance projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

Contingent Liabilities

Flyer Industries Limited

Flyer Industries Limited (Flyer) has been required to provide performance bonds to guarantee the completion of its contracts. The Government has undertaken to indemnify the bonding companies to the extent of $53 million as at March 31, 1986. This indemnity has been provided for by way of an encumbrance of The Manitoba Development Corporation's (MDC) borrowing authority of $40 million under Part II of The Development Corporation Act and a provision of $13 million under section 54.1 of The Financial Administration Act. Flyer has also been provided with a $30.5 million bank line of credit. This was provided by way of an encumbrance of the MDC's borrowing authority of $20.5 million and a provision of $10 million under section 54.2 of The Financial Administration Act. In addition, the MDC's borrowing authority has been encumbered further by $1.0 million with respect for MDC providing a $1.0 million performance guarantee to the Toronto Transit Commission regarding Flyer Industries Limited's contract to supply buses to the Commission.

Subsequent to March 31, 1986, Flyer has been sold to an outside party. Further details concerning this divestiture are provided in note 8 to the financial statements, Exhibit 12 and in the Departments and Agencies Operations section of this report.

OPERATING FUND ASSETS AND LIABILITIES

Manitoba Hydro-Electric Board

Subject to the approval of the Lieutenant Governor in Council, the Board may borrow or raise money for temporary purposes with the present limit being $150 million. There were $90 million U.S. of Manitoba Hydro-Electric Board promissory notes outstanding and guaranteed by the Province as at March 31, 1986. Section 35 of The Manitoba Hydro Act provides for the raising of United States and Canadian dollars at par. The United States dollars, converted to Canadian dollars at the March 31, 1986 exchange rate, amount to $125.8 million outstanding in Canadian dollars as at March 31, 1986.

Commitments for future services

The Financial Administration Act permits commitments to be made only to the extent authorized by the Legislature. The Appropriation Act, 1985 granted authority to the Government to commit expenditures not to exceed $220 million. The commitments for significant contracts and lease rentals of $198.4 million as at March 31, 1986 in the Public Accounts (1985 - $157.3 million) is understated by $169.2 million as explained in the following paragraph. The actual commitments of $367.6 million as at March 31, 1986 exceed the authorized commitment authority of $220.0 million by $147.6 million.

The Province has entered into a number of long-term lease-back agreements for the fixed assets it sold to Manitoba Properties Inc. These agreements, which cover lease periods effective August 1, 1984 to February 14, 1991, require annual rental payments of $59.0 million aggregating to $295.0 million. The above commitments of $198.4 million includes $59.0 million for the 1986-87 rental commitment. The balance of the Manitoba Properties Inc. lease commitment of $169.2 million for the period April 1, 1987 to February 14, 1991 and the above-noted commitments of $198.4 million aggregate to $367.6 million. The Department of Finance has taken corrective action during 1986/87 in that the Appropriation Act for 1986/87 increased the authority granted to the Government to commit expenditures from $220 million to $400 million.

Borrowing authority

The following is a summary of the outstanding borrowing authority (*in millions of dollars*):

	March 31		
	1986	**1985**	**Increase**
Appropriation Acts, to cover government operations and sinking fund provisions	$ 303.8	$ 206.4	$ 97.4
Loan Acts, self-sustaining programs	1,414.9	605.4	809.5
Total unabated authority	1,718.7	811.8	906.9
Encumbered authority,			
Manitoba Jobs Fund re:			
Gravure Graphics Ltd.	1.2	1.2	-
Producer Holding Co.	2.3	-	2.3
	3.5	1.2	2.3
Manitoba Development Corporation re Flyer Industries Limited	61.5	60.5	1.0
Communities Economic Development Fund	.4	-	.4
The Co-operative Loans and Loans Guarantee Board	.1	-	.1
Manitoba Agricultural Credit Corporation	5.4	-	5.4
	70.9	61.7	9.2
	$1,647.8	$ 750.1	$ 897.7

More detailed information concerning the borrowing authority is included in the Public Accounts in section 3.

TRUST FUND ASSETS AND LIABILITIES

Administered Trust Funds

Administered trust funds consist of the following (*in millions of dollars*):

	March 31 1986	March 31 1985	Increase (Decrease)
Assets			
Amounts due from Operating Fund	$ 487.9	$ 525.8	$ (37.9)
Cash and investments	569.5	541.7	27.8
	$1,057.4	$1,067.5	$ (10.1)
Liabilities			
Sinking funds for securities issued by government agencies	$ 268.1	$ 264.4	$ 3.7
Funds deposited with the Minister of Finance for investment	695.3	705.7	(10.4)
Banking facility accounts	12.5	13.1	(.6)
Operating trusts	6.4	8.2	(1.8)
Miscellaneous trust accounts	75.1	76.1	(1.0)
	$1,057.4	$1,067.5	$ (10.1)

The Government provides administrative and investment functions to certain trust funds. These funds are designated administered trust funds. The transactions for each of these trust funds are summarized in a statement which shows: the balance as at March 31, 1985; the receipts/transfers and payments/transfers during the fiscal year; and the balance as at March 31, 1986. During the fiscal year ended March 31, 1986, the receipts and payments arising out of the administrative and investment functions concerning the administered trust funds, approximated $2,279.1 million and $2,289.2 million, respectively (1985 - $2,047.3 million and $1,925.8 million, respectively).

The various administered trust funds may fluctuate from one fiscal year to the next, mainly depending on:

- the cash requirements of Crown entities
- the length of the interval between the Government issuance of debt instruments raising the required funds and the expenditure of the funds by the Crown entities, and
- changes in investment strategies by the Crown entities.

TRUST FUND ASSETS AND LIABILITIES

Custodial Trust Funds

Custodial trust funds consist of the following (*in millions of dollars*):

	March 31 1986	March 31 1985	Increase (Decrease)
Assets			
Funds in custody of the Minister of Finance and other departments	$ 529.7	$ 458.0	$ 71.7
Liabilities			
Civil Service Superannuation Fund	$ 336.8	$ 263.7	$ 73.1
Workers Compensation Board	117.3	119.0	(1.7)
The Public Trustee	64.9	64.9	-
Manitoba Hospital Capital Financing Authority	4.6	5.0	(.4)
Other	6.1	5.4	.7
	$ 529.7	$ 458.0	$ 71.7

The net increase in the above-noted custodial liabilities mainly arises from normal growth.

REVENUE AND EXPENDITURE

Accounting Policies

The accounting policies adopted by the Government regarding the basis of accounting and presentation of revenue and expenditure for the year ended March 31, 1986 are reproduced in Exhibit 13 of this report.

In earlier years, the Government's accounting policies were based upon the cash basis of accounting, modified to reflect year-end payables to suppliers. During the year ended March 31, 1979 significant changes were made to improve the Province's method of accounting. Changes in accounting policies have also been made in seven out of the last eight fiscal years. The main changes in policies over these years have been the establishment of allowances for non-recovery of amounts due to the Government; accrual of amounts recoverable under cost-shared agreements; acceleration of payments to reflect more accurately school division costs in the fiscal year in which they were incurred; and accrual of provincial tax revenues. We are supportive of the direction in which the policies are being revised, as they reflect a significant move to the accrual accounting basis. Under the accrual accounting basis, there is a matching of revenues and expenditures to the fiscal year to which they pertain. Statements for operating results and financial position are not prepared simply on the basis of the timing of the payment of expenditures or the receipt of revenues, as is the case on the cash basis.

Accounting policies have been revised during the current year to reflect the further adoption of the accrual accounting concept. These changes in accounting policies result in the recognition of unrealized foreign currency fluctuations at the fiscal year-end, a matching of investment-related transactions to the fiscal year to which they pertain, and an expansion of the valuation allowance to include all loans, advances and long-term investments. As indicated in note 10 of Exhibit 12, the effect of the changes in accounting policies on the revenue and expenditure for the fiscal year ended March 31, 1986 has been to decrease the excess of expenditure over revenue by $51 million. The changes in policies, however, have not been made on a retroactive basis because these amounts were not reasonably determinable. To this extent, the current operating results are not comparable with those of preceding years. Details concerning the changes in accounting policies are provided in Exhibit 13 of this report. The prior year's adjustment resulting from the changes in accounting policies is disclosed in note 10 of Exhibit 12 of this report.

The Public Sector Accounting and Auditing Committee established by the Canadian Institute of Chartered Accountants has been addressing the matter of developing standards that will be appropriate for government. This is a major undertaking. Although the Committee has issued general recommendations, significant specific aspects remain to be researched and recommendations eventually finalized. Accordingly, one may expect the Government's policies to continue to be revised until the general standards of financial statement presentation for government are fully developed.

Future changes could include increased recognition of staff benefit and payroll costs, changing the basis for establishing a valuation allowance for non-recoverable loans and defining the Government entity for reporting purposes. The latter relates to the consolidation or combining of operating results and financial positions of the Government and its agencies.

A summary of revenue and expenditure of the Operating Fund is reproduced in Exhibit 10 of this report. The statement compares the actual revenue and expenditure for the year ended March 31, 1986 with the Estimates for that year, and with the actual amounts for the preceding year.

Clarification of Operating Results

Financial Statement Presentation - Capital Expenditure

The statement of revenue and expenditure for the fiscal year ended March 31, 1986 reflects an excess of expenditure over revenue in the amount of $528 million (1985 - $483 million). As indicated in my report on the Consolidated Fund financial statements, gross capital expenditure of $277 million (1985 - $292 million) is then deducted to arrive at a calculated amount which is described as the net operating deficit. Disclosure of the capital expenditure in this manner, in our view, is inappropriate. The audit report concerning the Consolidated Fund financial statements for the fiscal year ended March 31, 1986 points out the deviation in the presentation of this matter in comparison to the Government's stated accounting policies. Exception has been taken to the presentation of these expenditures in this manner for the two previous fiscal years. Prior to the year ended March 31, 1984, an appropriate basis of presentation was used.

REVENUE AND EXPENDITURE

The Government produces a variety of financial reports for distribution. Financial information is provided to lenders in prospectuses as the Government raises funds in the various financial markets to meet a portion of its net financing requirements through the issuance of debt instruments. The major presentation difference between the financial statements included in the prospectuses and the Public Accounts is the presentation concerning the Government's excess of expenditure over revenue. The presentation basis adopted in the prospectuses does not reflect gross capital expenditures as a deduction from the excess of revenue over expenditure or give any other special treatment of these expenditures. Accordingly, a qualification regarding the fairness in presentation is not required for the financial statements in the prospectuses. To this extent, there has been a significant difference in the opinion expressed in the audit report on the Consolidated Fund.

The Minister of Finance also provides an annual summary type of financial report for general distribution which includes information on the fiscal position of the Government. This financial report includes a summary of the information provided in Public Accounts. This report does not reflect capital expenditures as a reduction of the Government's excess of expenditure over revenue or give any other special treatment of these expenditures.

Fragmentation of Operating Results

As indicated in my report on the Consolidated Fund financial statements, the statement of revenue and expenditure does not reflect the increase in the valuation allowance for losses on realization of assets in determining the excess of expenditure over revenue. Although the allowance has been presented on the basis of the Government's accounting policies, except in relation to the Northlands Bank commented on below, in our opinion, this present policy precludes a fair presentation of the Province's operating results. Accordingly, the audit report concerning the Consolidated Fund financial statements for the fiscal year ended March 31, 1986 includes a qualification regarding the fragmentation of operating results. The effect of this fragmentation of operating results is an understatement of the excess of expenditure over revenue by $69.9 million for the fiscal year ended March 31, 1986 (1985 - $42 million). The amount of $69.9 million consists of the write-down of common shares of the Manitoba Development Corporation of $50 million, the increase in the valuation allowance attributable to 1986 operations of $16.9 million and the write-off of the loan to the Canadian Co-operative Implements Ltd. of $3.0 million.

The necessity for significant increases in the valuation allowance for losses on the realization of assets indicates that decisions taken in establishing the investments as self-sustaining in the loan acts were unrealistically optimistic. This indicates that there should be more of a challenge process before items are accepted or continued as self-sustaining. We recommend that in future, the Department of Crown Investments and/or the Department under which the investment is to be made should develop documentation which clearly establishes a sound basis for considering the debt to be self-sustaining before it is accepted as such by the Department of Finance. We have been advised that the Government is acting on our recommendation.

There has also been a change in the manner in which the Province funds The Manitoba Agricultural Credit Corporation. During the fiscal year, the Government of the Province of Manitoba changed the basis of funding the Corporation's estimated allowances for doubtful accounts. Previously, the Government provided The Manitoba Agricultural Credit Corporation with funds to the extent that expenditures of the Corporation on an accrual basis exceed the related revenues. This resulted in the Government providing the Corporation with funds to cover increases in the estimated allowances for doubtful accounts by a charge to expenditure in Public Accounts. Commencing with the year ended March 31, 1986, the Government discontinued the practice of providing funding for the increase in the estimated allowance for doubtful accounts and now provides funding to the Corporation as uncollectible accounts are actually written-off.

To implement this change in funding policy, the Corporation repaid the Government approximately $5.3 million, being the balance of the estimated allowance for doubtful accounts as at March 31, 1985. This amount was taken into revenue of the Province for the fiscal year ended March 31, 1986. This amount had been funded by the Government in prior years from an appropriation and, in our view, should have been treated as a prior years' adjustment. This change in funding policy also resulted in the non-payment of $2.3 million to the Corporation that would otherwise have been paid under the previous funding policy. The effect of this change in funding has been to decrease the excess of expenditure over revenue as compared to the previous funding policy by $7.6 million. A further effect has been the requirement for the Government to establish an allowance for losses on its advances to the Corporation of $4.7 million to reflect the accumulated deficit of the Corporation as at March 31, 1986. Since the Government does not apply such allowance adjustments in determining the excess of expenditure over

revenue, the revised basis results in the deferral of recognition of estimated expenditures and a further fragmentation of operating results. This has resulted in a qualification of my report on the financial statements. We favour an approach by which the losses of Crown agencies are recognized in the Government's operating results in the excess of expenditures over revenues and which has the Crown agencies' operations compete more visibly with other programs for funding. Further details concerning this matter are included in the Loans and Advances subsection of the Operating Fund Assets and Liabilities section of this report. We have recently been advised that the Government is acting on our recommendation.

The Government wrote off its investment of $536,875 in the Northlands Bank by a charge to an appropriation, Public Debt. This write-off has been included on the statement of revenue and expenditure before the excess of expenditure over revenue. Although I agree that the charge to an appropriation is appropriate, this is not in accordance with the Government's accounting policy.

The Manitoba Development Corporation has continued to subsidize expenditures of the Communities Economic Development Fund. The subsidy for the year ended March 31, 1986 amounted to $.6 million (1985 - $.7 million). This subsidy should be provided from the Province's appropriations and included in the summary of revenue and expenditure in Public Accounts.

For each of the past two fiscal years, the Province raised part of its financing requirements through a Crown corporation, Manitoba Properties Inc. (M.P.I.). As a result of this arrangement, the Province's expenditure for Field Services in the Department of Government Services includes rental accommodations of $43 million (1985 - $23.5 million) for rent paid by the Province to Manitoba Properties Inc. Prior to 1985 these expenses would have been included as public debt expense in the Department of Finance. As well, public debt expense in the Department of Finance was decreased by $17.7 million (1985 - $11.2 million), reflecting interest received on a note payable to the Province by Manitoba Properties Inc. for the fiscal year ended March 31, 1986. The Province's accounts, as explained under the heading Manitoba Properties Inc. in the Operating Fund Assets and Liabilities section of this report, have not been consolidated with those of its controlled corporations involved in this arrangement. However, there is note disclosure of the effects of consolidating the assets, liabilities and operations of the Province and these controlled corporations. The notes to the financial statements provide the information required to appreciate the results of a consolidation of the accounts.

Duplication of Interest Expense

For the past several years we have reported that the Department of Finance has been paying interest from its appropriation to the Manitoba Development Corporation on the funds the Corporation deposited with the Department. These payments cause a duplication of interest expense to the Government and distort the Corporation's operating results. The funds on deposit resulted from equity financing of the Corporation provided by the Government, for which the Government incurs financing expenditures in its appropriation. We previously indicated that the situation appeared to be resolving itself as funds were intended to be used to finance the deficits incurred by Flyer Industries Limited. Our current review indicates that funds are still on deposit as these funds were not used to finance the Flyer divestiture as was previously intended. Officials decided that the funds on deposit were required to fund other operations of the Corporation. The amount on deposit has been reduced from $11.0 million as at March 31, 1985 to $9.1 million as at March 31, 1986. The interest paid for the fiscal year ended March 31, 1986 approximated $1.1 million ($1.1 million for the fiscal year ended March 31, 1985). The balance of funds on deposit as at September 30, 1986 amounted to $4.4 million.

Since the duplication of interest payment situation is continuing, although on a smaller scale, we again recommend the Government review this matter. It may be prudent for the Government to convert the funds on deposit to a non-interest bearing trust account. We have been advised that this matter is under review to consider how it can best be resolved.

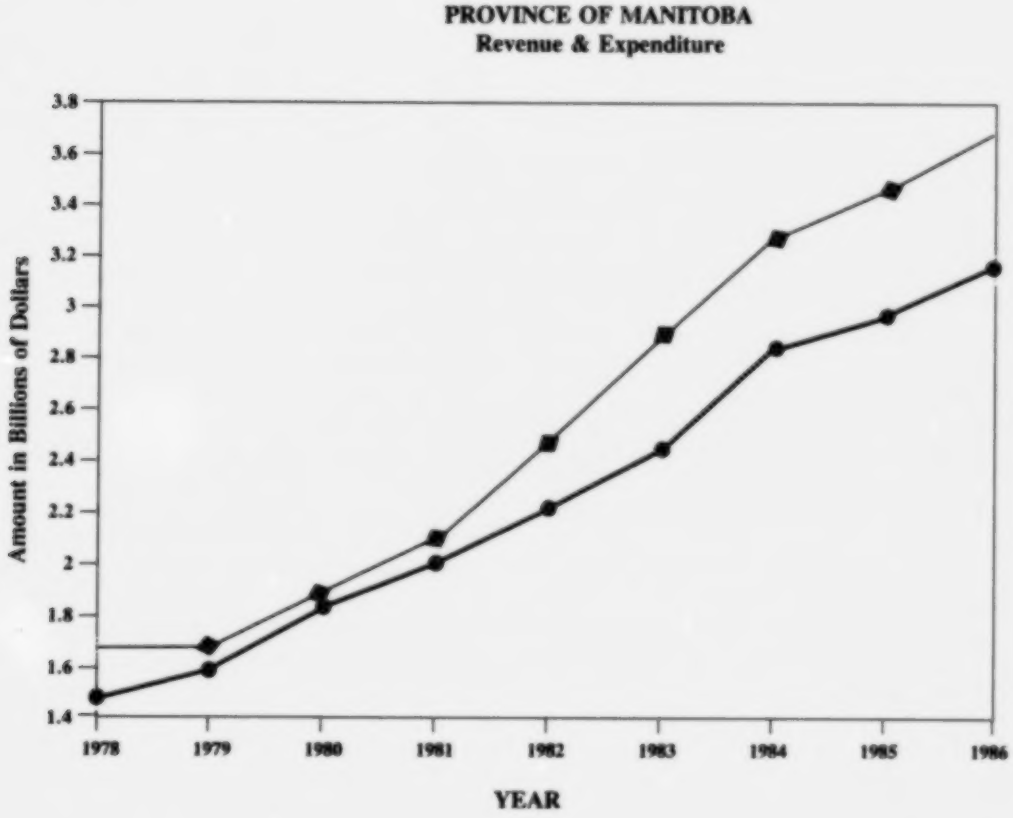
Variance Explanations

Explanations of significant revenue variances are included in Public Accounts. Explanations are provided for significant revenue variances with the Estimates and with the previous year's figures. However, for expenditure, explanations are provided only for variances with the previous year's figures. Because the Estimates form the basis for departmental operating plans, explanations of significant expenditure variances from the Estimates would provide useful information for legislators and management control purposes. Expenditure variance material is in the process of being included in departmental annual reports; when this is accomplished, it is expected that the variance explanations will be discontinued in Public Accounts. Our review indicates that a number of departments include explanations of variances from the Estimates; however, because of delays in issuing departmental annual reports, we have not seen this practice uniformly applied as yet. A comparative statement of departmental expenditure by object code, with variance explanations, is also provided in Public Accounts.

REVENUE AND EXPENDITURE

Historical Presentation

A graphic presentation of the revenues and expenditures of the Government of the Province of Manitoba for the fiscal years ended March 31, 1978 to March 31, 1986 inclusive is set out below. Prior to 1978, the accounts were maintained on a different basis.



Legend

● = Revenue

◆ = Expenditure

As indicated in the above graph, the growth in revenue has not kept pace with the growth in expenditure since the fiscal year ended March 31, 1980. The Government's excess of expenditure over revenue since this date reflects this condition. The expenditure amounts reflected in the above graph do not include the annual investment valuation adjustments and prior period adjustments. These adjustments are made directly to the Government's excess of liabilities over financial assets.

SPECIAL WARRANTS

Special warrants are issued under the authority of section 42(1) of The Financial Administration Act to approve expenditure not foreseen or provided for, or insufficiently provided for, and which is urgently and immediately required for the public good. We review the documents supporting requests for special warrants to see that they are in compliance with legislation.

A summary of the special warrants issued by departments on a comparative basis for the 1986 and 1985 fiscal years is included in Exhibit 6 of this report. The total special warrants issued for the year ended March 31, 1986 amounted to $86.3 million (1985 - $82.1 million). The larger of the special warrants consisted of:

- the Department of Health, $31.1 million (1985 - $12.7 million), to provide mainly for additional funding for Manitoba Health Services Commission expenditure relating to hospitals - $16.8 million, medical - $8.7 million, and other programs - $4.1 million;
- the Department of Employment Services and Economic Security, $14.3 million (1985 - $11.0 million), to cover underestimated social allowance expenditures;
- the Department of Agriculture, $8.3 million, to provide for the write-down of interest rates on loans under the Manitoba Agricultural Credit Corporation loan program for the 1985-86 fiscal year and to provide assistance to the Manitoba sugar beet producers;
- the Department of Government Services, $7.2 million (1985 - $24 million), to provide for rental payments on property sold to Manitoba Properties Inc. and leased back;
- the Department of Community Services, $4.6 million, to provide increased grant assistance to Winnipeg Child and Family Services, and child welfare agencies; increased expenditures relating to the maintenance of children and; increased salary costs relating to the Province's adult correctional institutions;
- the Department of Legislation, $2.8 million, to provide for the March general election.

The total actual expenditure of $3,645 million for the year ended March 31, 1986 was $1.7 million less than the total approved by legislation under the Main Supply and Statutory Authority, exclusive of the amount approved by special warrants.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

General Comments

The Government of the Province of Manitoba provides a wide variety of social and economic services to the public. The size of government is such that a formal management structure is required for the effective utilization of government resources. Organizationally, the Government of the Province is structured on a departmental basis. A number of other entities have also been established by the Government to interrelate with these departments in a manner which contributes to the development and maintenance of an appropriate management system.

Responsibility for the Government's central management system is assigned to Treasury Board, the Department of Finance and the Civil Service Commission. We previously indicated that a number of steps were being taken to strengthen the Government's management processes and practices. As a result of these undertakings, a number of benefits are already being realized. Some departments have been able to adjust their planning and management information systems to meet the economic challenges and changed requirements with relatively little difficulty, as they had a framework in place from which to build. Other departments, unfortunately, are having greater difficulty meeting the challenges arising from these changes as their planning and management information systems were less advanced. Notwithstanding these difficulties, improvements in departmental planning and management information systems are facilitating the resource allocation process.

Accountability is very important in the public sector. A number of mechanisms and processes have been established that contribute towards accountability in the public sector. These mechanisms or processes include the Estimates, annual reporting, committees of the Legislature and the audit process. In previous reports, we provided comments and recommendations for improving the Estimates, financial statements and other data included in the Public Accounts and departmental annual reports. This report includes an update on these matters, and includes recommendations for assisting the Public Accounts Committee in the overall process.

Department of Finance

Annual Budget

In our previous report we indicated that the general public had become more aware of the extent of deficit financing by governments and much more concerned with the consequences of the growth in public debt. Accordingly, we recommended that the Government establish a formal system for a regular evaluation of the financial position and economic strength of the Province. We also recommended that the Government provide reasonable assurance that decisions being taken by Government regarding current and planned deficit financing are not extending the Province beyond manageable financial limits. We indicated that the development and distribution of a long-range fiscal plan could provide the required information; we also indicated that if long-range fiscal plans were made available to the Legislature, they could serve as an effective basis for the annual review of the budget and estimates. The use of graphic illustrations of past performance and future projections on a multi-year basis would significantly enhance this process. Such information would help highlight the current expectations in relation to past results and future projections and in relation to current economic reality.

During meetings of the Standing Committee on Public Accounts for each of the past two years, discussion took place on the matter of the development of a multi-year fiscal plan. The Government is currently giving consideration to multi-year planning. Subsequent to the fiscal year ended March 31, 1986, the Government entered into a contract with a senior consultant to consider the ramifications of moving from a one-year expenditure approval system to a multi-year expenditure management system. This is encouraging.

Long-term forecasting of future economic conditions is not an easy task. However, it can provide a framework, for control of financing requirements and assist in making the difficult resource allocation decisions required in a time of scarce resources. Inappropriate deficits can cause a progressively greater share of the Government's expenditures to be required to service public debt; should this occur, the options and

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

flexibility needed by the Government to meet changing economic conditions would be correspondingly decreased. Accordingly, we consider it important that the Government establish the requirement for the production and distribution of an appropriate multi-year plan on a priority basis. In our view, this should be implemented on a progressive basis and refined annually on the basis of changing conditions. Further comments on this issue are reflected under the heading Planning in the Government-Wide Reviews section of this report.

Legislative Expenditure Estimates

In previous years we expressed concern about the possible lack of legislative controls over certain job creating expenditures approved in a separate appropriation designated as the Manitoba Jobs Fund. The Legislative Estimates material only allocates the expenditures approved by the major sectors: Economic Development; Housing, Urban Development and Human Resources; and Community and Capital Assets. Consequently, there is no detail included in the estimates for the programs planned, the administrative costs, or the departments to be responsible for program delivery.

Our concerns have not been resolved. As in the past, only internal Manitoba Jobs Fund documents detail the allocation among programs planned within these sectors and identify delivery departments responsible for specific projects. We appreciate that there is a need for flexibility in allocating funds among projects, and to change allocations as the year progresses because of changed circumstances or unanticipated factors. However, to improve legislative information and control, we again recommend that an estimates supplement document be prepared and distributed for the Jobs Fund appropriation similar to those being phased in as a requirement for each of the operating departments. We have been advised that the Minister of Finance is receptive to this recommendation and is proceeding to have it implemented.

Manuals, Directives and Guidelines

In our previous reports we indicated that information had been developed by the Department of Finance regarding the Government's management philosophy and management systems. We also recommended the consolidation and distribution of this material, as it could assist in the overall management development process.

During our review of the action taken during the year regarding this matter, we noted that a draft Management Practices Guide was completed and distributed to all deputy ministers for their input. We understand that this material was generally well received and that, on the basis of responses received, the guideline material was presented to Treasury Board for review and approval. Treasury Board has recently approved this management policy material. Accordingly, this material can soon be distributed and made available for use by all levels of departmental management and by those being trained for, or interested in supervisory and management positions.

Information Systems Support Branch

In our report for the past several years, we expressed concern over the lack of a plan to enable the Government to keep essential systems operating if the Government's main computer facility became inoperable. The adoption of a computer processing disaster recovery plan forms an integral part in assuring that essential operations can be continued.

Arrangements have been made by Manitoba Data Services for alternate processing capacity in the event of a disaster. Tests have been performed at the alternate facility. The Branch has developed a systems policy document which has been approved and issued to all departments. The policy requires departments to identify the back-up and security requirements to ensure that safeguards are sufficient to protect information and ensure continued operations. We note, however, that the procedures required to maintain operations of critical systems in the event of a disaster have still not been completed on a government-wide basis. Departments should be identifying their critical systems, and the most practical means by which such systems may be operated on a temporary basis; for certain systems, this might not require a computerized system. Departments should then communicate this information to the Information Systems Support Branch. This Branch should act on behalf of the Government to bring about a government-wide priorization of critical systems. In addition, it is necessary for departments to identify the resources required by such critical systems and to ensure that they have a plan to put those resources in place. Only then can the Government be in a position to test the adequacy of its disaster recovery plan. Until such time as this is achieved, the Government is vulnerable, and subject to the consequences

that would arise from a prolonged stoppage in critical computer operations.

Progress has taken place during the year. A course on security/disaster recovery has been designed by the Branch. The Branch is preparing to offer the course in the near future and to have departments identify their progress in addressing system security and disaster recovery. Although this progress is slower than we expected, we encourage the Information Systems Support Branch to proceed with the identification of critical systems for processing on the alternate computer facility and to make the necessary plans for priorization of the Government systems.

Civil Service Commission

Managerial Resources

In our report last year, we indicated that the Commission has for several years been in the process of developing a comprehensive managerial resources management plan. The Government has recognized that its people are its most important asset. The difficult economic situation in which the Government finds itself makes it even more important that appropriate attention be given to improved training and skill development for existing employees so that they are better able to handle the increasing demands being placed on them. In order to emphasize the importance and complexity of this issue and to assist in the development of an appropriate plan, our report also outlined the key aspects of such a plan and described their inter-relationships. Our review this year indicates that progress in resolving our concerns in this area has been slow, but we are encouraged by the recent establishment of a steering committee on executive development discussed in more detail below.

Economy and efficiency matters associated with the management of human resources in the Civil Service have become of increasing concern and importance. The operational costs of the Government and its efficiency and effectiveness are significantly affected if the Government does not have the right number of people, with the necessary skills, when and where they are needed and if those resources are not managed effectively. Personnel policies, practices and systems significantly affect the efficiency and effectiveness of the Civil Service. Personnel management in all its aspects must be regarded as a vital component in achieving effective overall management of Government activities. However, the management of human resources is a complex process involving many related activities. It is essential that the Commission demonstrate a proactive strategy by maintaining co-ordination of all components of human resource management including planning, training, resourcing, compensation management and labour relations.

Last year we recommended the Commission establish a task force responsible for developing a skills model for Civil Service managers. A "Steering Committee on Executive Development" has been established, chaired by the Clerk of the Executive Council and consisting of the Civil Service Commissioner and several departmental deputy ministers.

The steering committee has adopted as its primary role the recommendation of a model for the implementation of a comprehensive Executive Development Plan within the Manitoba Civil Service. It has agreed that the Executive Development Program should focus upon:

- development of an overall strategy to equip senior managers systematically with the requisite knowledge and skills to assume greater responsibility as Executive Director, Assistant Deputy Minister or Deputy Minister.

- developing and equipping existing Managers to enable them to perform more efficiently and effectively within their present position.

- encouraging transfers and lateral movement within and throughout the system as a desired alternative to vertical promotion, particularly where such opportunities may be limited as a result of current economic conditions, affirmative action requirements and the need for a proper balance between internal promotion and external recruitment.

We are encouraged by this very positive development. The delays in getting the committee established have resulted in there being only limited progress as yet toward resolving the concerns raised in our report last year. We are hopeful, however, that with the emphasis the committee is placing on such issues as experiential development opportunities, performance management, structured management training, departmental succession development planning, integration with affirmative action and communication, that significant progress will be made over the next several

months. This should eventually lead to a program to assist managers in the Civil Service to develop the skills, knowledge and experience they need to do their jobs in an effective manner having regard to the increasing expectations being placed on them.

With respect to performance appraisals, we noted last year that the Commission had not issued guidelines to departments to facilitate consistent and effective staff evaluations. A general performance management policy has now been approved by Cabinet. It has been discussed with Joint Council and communicated to departmental personnel representatives who are now responsible for policy implementation. Our concern in this area will be resolved after this policy has been officially communicated by amendment to the Civil Service Personnel Manual. We have been advised that the amendment will be made very soon.

Also, last year we had expressed concerns relative to management classifications and compensation programs. Our concern regarding potential inequities between Civil Service managers and Crown agency managers is set out in this report in the section entitled Review of Government Control over Compensation by Crown Agencies. The efforts directed toward implementation of The Pay Equity Act have been restricted to dealing only with gender-dominated classifications. It is important that the principle of fair compensation practices is applied consistently throughout the Civil Service. The Commission should be in a position to demonstrate this principle for any position, even though it may not be gender-dominated. Accordingly, as The Pay Equity Act is implemented we recommend that the Commission monitor relative compensation levels of all classifications to ensure that inequities are not present and do not develop.

During the year, the Commission has commenced a feasiblity study for delegating the staff classification aspect of human resource management to operating departments. This study and consultation process may assist departmental management in meeting their responsibilities and strengthen departmental accountability. The Commission has also initiated three new executive development programs which broaden executive awareness of relevant issues and management skills.

Personnel Information System

In prior years we had expressed concern about problems in the Civil Service personnel information system. The Commission undertook a project to upgrade the system and develop a more efficient and effective computer network for managing personnel information. Last year it was anticipated that the new network system would be operational by March, 1986. This project however, is still in process. The Commission has experienced some delays because of staff vacancies and now anticipate project implementation by late 1986. Once implemented, we will be in a position to evaluate the effectiveness of the new system.

Conflict of Interest

Last year we recommended the Commission encourage consistency and the development of equitable conflict of interest practices within departments by initiating formal communications with all departments. The Commission has now distributed conflict of interest guidelines to all civil servants and has reviewed their application and administration with departmental representatives who are responsible for implementing the guidelines. The guidelines place the onus on employees for disclosure of any direct or indirect potential conflict situations to their departmental Deputy Minister. The staff of the Commission have taken on a consultive capacity role to departments and the Commission's Board may also be requested to rule on any disputed situations. The Commission will be maintaining a history file on rulings provided to ensure consistent application of these guidelines across the Government. We believe that this is a reasonable process and encourage the Commission to continue its useful work in this difficult area.

Public Accounts Committee

The Legislature has established a number of Committees to undertake specific responsibilities on behalf of the Legislature as a whole. The Standing Committee on Public Accounts is one such Committee.

During our attendance at Public Accounts meetings we noted that invariably two questions are asked by members. These questions pertain to what the

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Government's position is in respect to our significant recommendations and what action has been or is being taken in response to our recommendations.

We note that neither Treasury Board nor the Minister of Finance provides a formal response to the concerns raised in our report prior to the Committee meetings. To improve communication and strengthen the accountability cycle, we recommend that a process be adopted whereby Treasury Board or the Minister of Finance provides a formal response to the significant concerns raised in our report to the members of the Committee in advance of the Committee's first meeting.

We have been advised that the Government is receptive to this recommendation. The Government intends to provide the Committee with a response indicating the progress made or intended action to resolve the concerns raised.

At the most recent Public Accounts Committee sessions, the matter of the Committee selectively reviewing departmental annual reports with senior officials of the departments present was reviewed. Another concern raised pertained to improving the timeliness of the Committee's review. As the Committee is a Standing Committee and not restricted to carrying out its mandate while the Legislature is in Session, we consider that there would be advantages for the Committee to meet considerably earlier, when the House is not sitting. In this way, the Committee could carry out its mandate on a more timely basis. We believe that such adjustments to the process could prove very worthwhile and encourage their consideration and adoption.

REVIEW OF GOVERNMENT CONTROL OVER COMPENSATION BY CROWN AGENCIES

We previously reported that a formal system was not in place to provide a rationale for significant variations in compensation levels among Crown agencies and between the Civil Service and Crown agencies. Aspects of this issue are also discussed under the heading Civil Service Commission - Managerial Resources.

We also previously reported that a system is in place for reviewing and approving proposed public sector collective bargaining settlements in advance. We believe that this is an effective process for maintaining equity in compensation levels for staff remunerated from public funds. We recommended that this approach be generally extended to the process for managers excluded from the bargaining process. We believe that such a process would make it easier for the Government to ensure that it is following fair and equitable compensation practices with funds entrusted to it by the public.

The Department of Crown Investments is currently considering options with respect to this issue. We encourage the Department to proceed with this review and recommend that it include senior managers at all Crown agencies. We also encourage the Department to work closely with the Clerk of the Executive Council to address the issue of comparability between compensation in Crown agencies and the Civil Service. The product of these reviews should include a framework for the preparation of documentation supporting the rationale for significant variations in compensation levels. It should also identify specific individuals or organizations responsible for monitoring and maintaining the system.

GOVERNMENT-WIDE REVIEWS

General Comments

We previously reported that Treasury Board was developing and issuing directives and guidelines to departments concerning the Government's management philosophy and processes. We also indicated that departmental management would be working towards adopting the expected standards as soon as practicable, and that we would be monitoring the progress made. Our reports have included the results of our government-wide reviews of the planning process, the expenditure Estimates process, departmental annual reports, and the internal audit function. During the year ended March 31, 1986 we again monitored departmental progress in these areas and reviewed the interaction of the planning function on management reporting of results. The following comments provide an update on these matters.

Planning

Planning is the most fundamental function in the management cycle. Since the other management functions of organizing, reporting, controlling and evaluating interact with the planning process, it is logical that the planning function be addressed first.

Previously we reported that reasonable progress was being made by departments in implementing the planning guidelines approved by Treasury Board.

A number of developments in the planning area have taken place since our previous report, including:

- development of a draft Management Practices Guide,
- undertaking a review of the expenditure management system, and
- initiatives that build upon the planning base.

Details concerning these matters are provided in subsequent paragraphs.

During the year ended March 31, 1986, a draft Management Practices Guide was distributed to senior Government departmental officials for review and comment prior to finalization. This Guide focuses attention on efforts to strengthen the management function, by identifying the interrelationships that exist between planning and each of the other management activities. This Guide is a logical step in the development of a planned series of management policy initiatives.

We previously reported that one of the requirements for adequate departmental planning was the development of a multi-year plan. A review of the ramifications of moving from a one year expenditure approval system to a longer-term, multi-year expenditure system is currently underway. The Government has indicated an intention to work towards multi-year budgeting. Towards this end, a working group, led by a senior consultant, has recently been established. Part of the group's objectives is to develop the framework for the introduction of the mechanisms associated with multi-year budgeting. We are encouraged by these actions. In our view, this is an extremely important aspect of the planning process, since it focuses attention on the Government's priority setting process.

During the year ended March 31, 1986, the Government also took steps to integrate management reporting of results with the planning function. Further details concerning this matter are provided in the following section.

Management Reporting

We previously indicated that the Government had issued a policy directive concerning departmental management reporting guidelines. Providing meaningful results information to management on the progress made towards the achievement of planned objectives is the intent of management (results/performance) reporting. Actual results are related to planned objectives; accordingly, this reporting basis is separate and distinct from the financial reporting (expenditure) process. This type of management reporting (results/performance) is a logical extension of the planning initiatives, since if departmental plans are to be useful, actual accomplishments must be compared with the plans and reported on regularly.

Subsequent to the issuance of the management reporting guidelines, the Department of Finance carried out a follow-up assessment, and provided a status report to Treasury Board. All departments were requested to conduct a self-assessment of their management reporting systems in light of these new management reporting policy guidelines. Although this internal appraisal approach may depict an overly positive situation, a number of general observations were made by the Department of Finance based upon the various departments' self-assessments. Not all departments have submitted a self-assessment report as yet. Accordingly, the status report on management reporting within Government was not as all inclusive as was desirable. Nevertheless, the Department of Finance was able to make a number of general observations, with which we agree, as follows:

- A good foundation exists for the development of appropriate management systems due to the significant improvements made in departmental planning capabilities. A few departments, however, have not progressed very far as yet.
- The transition from planning to management (results/performance) reporting has not occurred on a broad basis.
- Although some very good examples of management reporting were identified, a number of departments did not distinguish between management reporting and financial reporting systems.
- A number of departments are currently implementing, or planning to implement, meaningful enhancements to their management reporting systems.

These observations indicate that the management reporting systems are still in the early development stage. This is to be expected; it is also expected to be some time before all departments reach an appropriate level in the development of this aspect of the management function. Further work is required before management reporting systems can be considered adequate.

Departmental Expenditure Estimates

In our previous reports we indicated that we believed that better documentation of result expectations (output data) would assist with management accountability, and encourage operational effectiveness. We also considered that significant benefits could be realized if estimates supplements were provided to the members of the Committee of Supply prior to the departmental estimates being considered.

The Government has taken initiatives directed at strengthening management accountability by stressing the development of management reporting during the year, building upon the planning initiatives previously undertaken. We concur with this approach, since the intent is to improve the communication of more meaningful results information regarding the achievement of planned program objectives and outputs.

We previously reported that departments were developing supplementary estimates information documents on a progressive basis. For the Legislative review of the 1986-87 Estimates, supplementary estimates material was developed for thirteen departments. This information covered approximately $905 million of planned expenditures as compared to total Government Main Estimates of Expenditure of the Government of the Province of Manitoba as presented in the Legislature of approximately $3,870 million for the 1986-87 fiscal year. Based upon the current progressive implementation plan, all departments will be required to develop supplementary estimates information documents for the 1987-88 fiscal year. The development of these documents, we understand, will be based upon the current guideline material, refined by actual departmental experience.

Departmental Annual Reports

We previously expressed concern that departmental annual reports were not being prepared on a basis which provided appropriate accountability. We also recommended that the Standing Committee on Public Accounts review annually, on a selective basis, departmental administrative operations with senior officials. The departmental annual reports could serve as the basis for such reviews.

Departmental annual reports form an important link in the communication and accountability processes. The summary and detailed financial statements of the Government of the Province of Manitoba provide important stewardship information concerning the Government as a whole from a financial perspective. Individual departmental reports can provide members of the Legislature and the public with a more complete understanding of departmental operations and accomplishments. It is only through the combined use of summarized annual financial statements and appropriate departmental annual reports, that overall governmental operations may be understood, and a meaningful evaluation made as to whether the intended results have been achieved from the use of public funds.

Some improvements have been made by departments towards making their annual reports more useful. A number of annual reports now include information regarding the departments' role and mission. In some cases, however, these role and mission statements have been developed on a program or program section-oriented basis, rather than on an overall departmental basis. We also noted that the annual reports tended to include information of a kind which only describe departments' program activities. The actual program objectives and their intended impact generally require clarification. However, we noted an improvement in the identification of the departments' client target groups and areas served. In addition, the annual reports generally include more financial information, including a comparison of actual expenditures with the

expenditure level approved in the Estimates, with variance explanations.

Our previous report also indicated that not all departments develop and issue annual reports. Accordingly, the communication and accountability standards for the funds expended by these departments have not been achieved. We previously indicated that five operating departments did not issue annual reports. These were the Department of the Attorney-General, Crown Investments, Energy and Mines, Northern Affairs, and Urban Affairs.

Our follow-up of this matter indicates that the Department of Northern Affairs has now issued an annual report. In addition, the Attorney-General's department and the Department of Urban Affairs, Energy and Mines and Crown Investments are in the process of developing an annual report regarding their activities. Departmental reports do not as yet indicate the significant methods used to monitor program effectiveness nor are they generally being prepared on a timely basis.

The Department of Finance produces information regarding Government-wide results, and these results reflect overall Government operations, including the Department of Finance treasury and taxation operations. We appreciate that the Department of Finance estimates supplement includes certain operational expectations relating to the treasury, taxation and other activities of the Department but the Department of Finance does not produce an annual report on the prescribed basis covering its operating activities, such as taxation collection or treasury operations. Such a report would be useful to reflect the actual results of these important departmental activities as compared to the operational expectations. The departmental annual report should be a function of the Administrative Division of the Department. Similarly, the Jobs Fund produces information for distribution regarding its initiatives; this information, however, is not yet developed in accordance with the Premier's directive regarding annual reports.

Further improvements in the information provided in departmental annual reports are required. In addition, the reports should be developed on a more timely basis. We also recommend that the informational aspect of departmental annual reports be improved so that the reports eventually reflect the improvements made in their departmental planning and budgeting processes.

Because an appropriate policy has been established, we will not be reviewing this matter on a government-wide basis in the future, but will be reviewing and reporting insufficient progress on an individual department basis.

As indicated in our comments regarding the Public Accounts Committee in the section of this report pertaining to the Government's Central Management System, we understand that the possibility of the Committee selectively reviewing departmental annual reports with senior officials of the departments is currently being reviewed. In our opinion, adoption of this review basis is a logical step in completing the accountability cycle.

Internal Audit

We previously reported that the Government had adopted an appropriate internal audit policy. We also reported that the majority of departments perform activities of an internal audit nature. The remaining departments not having any internal audit activities were smaller departments.

We previously indicated that the departments without a formal internal audit function generally had not progressed significantly. As a result, we recommended that qualified staff be assigned, at least on a part-time basis, to undertake the higher priority aspects of the internal audit function. We considered that this would constitute acceptable compliance with the intent of the internal audit policy.

Our current review of this matter indicates that departments without an internal audit function are working towards compliance with the intent of the policy. One of the options identified by these departments includes the sharing of an internal audit position with one or more other departments. We noted that some of these departments had progressed to the point of having developed a comprehensive proposal and plan regarding implementation of internal audit activities commencing with the 1987-1988 fiscal year. In this regard, we understand that these departments are also considering additional resources in their estimated expenditure requirements for the 1987-1988 fiscal year.

We also noted that not all of the departments having an internal audit function, had progressed to the point where they were fully complying with governmental policy. These departments, however, were working towards compliance with the requirements.

We are generally satisfied that progress is being made towards compliance with the internal audit policy directive. Accordingly, we will not be reviewing this matter on a Government-wide basis in the future, but will be reviewing and reporting insufficient progress on an individual department basis.

DEPARTMENTS AND AGENCIES OPERATIONS

Department of Business Development and Tourism and Department of Industry, Trade and Technology

In our previous report under the section of Government-Wide Reviews we commented on the ineffective management systems in these two departments. During the government reorganization for the 1984-85 fiscal year, these departments were created, mainly from the former Department of Economic Development and Tourism. This reorganization resulted in a single Finance and Administration Branch for these two departments.

At the request of the two Deputy Ministers, the Systems Planning and Development Branch of the Department of Finance undertook a review of the continuing problems in the financial management function of these departments. A report was issued in November 1985 which was accepted by both Deputy Ministers. The report identified significant deficiencies and provided recommendations which, if implemented, should result in substantial improvements. An action plan was prepared to implement the recommendations by April 1986, but little progress was achieved. A recent change, however, was made in senior staff responsibilities within the Finance and Administration Branch; this change is expected to contribute to a resolution of the ongoing problems.

We encourage the Departments to continue their efforts to implement the recommendations contained in the November 1985 report as quickly as practicable.

Department of Community Services and Corrections

In our previous report we expressed a concern that the Department's management control and monitoring responsibilities were not being carried out as effectively as expected. Our concerns pertained to administrative procedures in both central operations and in the Child and Family Services programs.

During the 1985-86 fiscal year the Department has continued to strengthen its control, monitoring capabilities and administrative procedures. The progress since our last report is as follows:

- The final phase of the Department's five phase planning process was implemented during the year. Development of a formal three to five year plan is being considered.
- A commitment accounting system was developed for the Child and Family Support Branch and an Executive Director of Operations was recently appointed to strengthen senior management within the Child and Family Services Division.
- A new funding system was developed for Child and Family Service agencies which utilizes a standardized invoice format and more specifically relates funds provided to various child care cost components.
- Extensive changes are being considered to the Treaty Indian Child Welfare billing system regarding departmental policies, as well as billing and collection administrative procedures, to correct longstanding deficiencies in this area.
- The Agency Relations Branch of the Department is being reorganized and staff and functions are being transferred to the program areas of the Department.
- The development of the automated Child and Family Information System is continuing and a system prototype is presently being developed.

We note that the Department is taking steps to resolve the difficulties which have been experienced. Further steps are contemplated in order for the Department to fully address its monitoring and control responsibilities and other administrative requirements. As these steps become fully operational, our concerns will be resolved.

Department of Culture, Heritage and Recreation

Payments have been made from a trust account which do not comply with the legislation establishing the trust account. The Department of Culture, Heritage and Recreation trust account was created from funds realized by The Manitoba Lotteries Foundation. During our review of this trust account, we noted that salaries of departmental employees and other administrative expenditures of approximately $1.2 million, were paid from this trust account. Payment of these expenditures does not comply with the purposes provided for in The Manitoba Lotteries Foundation Act. The Act prescribes that, only with the approval of the Lieutenant-Governor-in-Council, may funds be "transferred to a revenue account of the Consolidated Fund and treated as general revenue" to be used for general Government purposes. Such approval was not obtained by the department. We recommend that the trust account be used in accordance with Legislative requirements. The expenditure from the trust account also results in an understatement of revenue and expenditure of the Consolidated Fund.

Action is being taken so that the Department will operate in compliance with legislation.

DEPARTMENTS AND AGENCIES OPERATIONS

Department of Education

For several years we have recommended that Regulation 12/81 be amended to make municipal remittances of school tax levies to school divisions and The Public Schools Finance Board more in line with tax collections. The regulation establishes dates for the remittances of the school tax levies. However, these dates are inconsistent with the collection patterns of the municipalities and financing inequities result.

Some municipalities collect the taxes and are able to invest these funds prior to payment to the school divisions or The Public Schools Finance Board. Where taxes are not paid by the due date, the municipalities charge penalties to cover the cost of financing. On the other hand, the school divisions and The Public Schools Finance Board are incurring substantial financing charges, even though taxpayers are generally paying their property taxes on a timely basis. The reverse situation also occurs in some instances where municipalities must borrow funds and incur interim financing charges to remit the school taxes before they have been collected from the taxpayers.

Officials of the Department of Education reviewing this matter put forward three possible options to address these inequities. The option which most closely correlates the remittance and collection dates provides for the remittance of the school taxes thirty days after the municipal collection date. This option would result in a $3.8 million reduction in interest to The Public Schools Finance Board and an additional $2.8 million in reduced interest for school divisions. The review also points out that while the options would result in interest savings for the school divisions and The Public Schools Finance Board, they would also result in lowered interest revenues or increased costs for the municipalities.

While it is appreciated that taxpayers fund the expenditures of the school divisions and the municipalities, if there is to be a subsidy provided to the municipalities, it should be done in a more direct manner and not at the expense of education financing. We again recommend that the regulation be changed so that the timing of remittances will be more in line with tax collections.

We have been informed that officials of the Departments of Education, Municipal Affairs and Urban Affairs have reviewed the options, and that the Minister of Education has been advised on this matter. It is appreciated that it is not easy to make changes affecting the financing of the municipalities and school divisions, especially during this period of economic difficulty and when changes to the present methods of property assessment are being considered. However, we encourage the Department to amend the regulation as soon as practicable to make the timing of remittances more in line with tax collections.

Department of Finance

We previously indicated the Government entered into a long-term lease agreement with Manitoba Properties Inc. after The Appropriation Act, 1984 was developed. Because of this sequencing of events, commitments in excess of the authority granted to the Government were incurred. The Government subsequently introduced legislation to resolve the non-compliance at the next sitting of the Legislature. Accordingly, we consider this non-compliance to be more of a one time administrative oversight which wasn't appreciated at the time the agreement with Manitoba Properties Inc. was undertaken. The following material updates this situation.

Commitments were made in excess of the authority granted to the Government. The Financial Administration Act permits commitments to be made only to the extent authorized by the Legislature. The Appropriation Act, 1985 granted authority to the Government to commit expenditures up to $220 million. The actual commitments as at March 31, 1986 exceed this limit by $147.6 million. The overcommitment is attributed to the large rental payments required under agreements with Manitoba Properties Inc. over the next several years. As at March 31, 1986, amendments had not been made to deal with this matter. Subsequent to that date, however, amendments were made which permit the Government to enter into commitments of up to $400 million. We now consider this matter resolved.

Department of Health

We have previously expressed concern of a possible conflict of interest where a number of physicians who are civil servants also have private medical practices for which they receive fees for service from the Manitoba Health Services Commission. Last year we reported that the Department was in the process of implementing conflict of interest guidelines, together with systems for monitoring the performance of civil service duties, to address this concern.

We are pleased to report that the conflict of interest guidelines and systems to monitor the perfor-

mance of doctors as to their civil service duties have now been implemented. This addresses our previous concern in this area.

Department of Natural Resources

Last year we reported that the Department of Natural Resources determined a shortage of revenue in comparison to requirements. As a result of this matter, an individual's employment with the Province was terminated. A comprehensive investigation by the Department's Internal Audit Section established that approximately $22,600 had been removed from the Department's revenue system over a two and one-half year period. As a result of the investigation, significant changes have been made to strengthen the Department's revenue system. Other changes to further strengthen this system are in process.

The shortage has been recovered through restitution and insurance.

The results of the investigation were turned over to the police for review. Their review has now been completed and charges have been laid against the former employee.

Various Departments - Overexpenditure

On an annual basis, the Government of the Province of Manitoba presents its budget for debate in the Legislature. Upon formal approval of the budget, the Legislature delegates authority to disburse funds for the purposes approved and within the limits approved.

Last year we reported that two departments had incurred expenditures in excess of their spending authority. The Department of Employment Services and Economic Security and the Department of Culture, Heritage and Recreation incurred expenditures in excess of their spending authority by $3.9 million and $.5 million, respectively.

For the fiscal year ended March 31, 1986, we noted seventeen instances affecting twelve departments where expenditures of approximately $3.9 million in excess of legislative spending authority were incurred. The expenditures in excess of the departments' legislative authority have been paid as Late Accounts and charged to the appropriations for the fiscal year ending March 31, 1987. The following schedule provides a summary of authorities that were exceeded for the fiscal year ended March 31, 1986.

DEPARTMENTS AND AGENCIES OPERATIONS

Departme..t/Program	Unexpended as at March 31, 1986	Late Accounts to August 31, 1986	Over-expenditures
Attorney-General			
- Criminal Justice	$ 76,314	$ 81,346	$ 5,032
- Legal Services	1,002	50,268	49,266
- Court Services	44,715	103,727	59,012
Business Development and Tourism			
- Business Development	162	41,207	41,045
Community Services			
- Child and Family Services	97,183	906,208	809,025
Consumer and Corporate Affairs			
- Corporate Affairs	44,801	66,568	21,767
Culture, Heritage and Recreation			
- Communications Services	(241,915)	313,997	555,912
- Telecommunications Policy	1,769	4,305	2,536
Education			
- Program Development Support Services	98,093	284,662	186,569
- Bureau de l'Education Française	25,889	34,893	9,004
Employment Services and Economic Security			
- Economic Security	2,353,824	3,467,138	1,113,314
Energy and Mines			
- Mineral Resources	13,751	75,152	61,401
Government Services			
- Project Services	(12,310)	9,049	21,359
Health			
- Community Health Programs	32,082	307,766	275,684
Highways and Transportation			
- Operations and Maintenance	46,073	53,125	7,052
- Engineering and Technical Services	226,684	854,117	627,433
Urban Affairs			
- Agreement for Recreation and Conservation for the Red River Corridor	1,559	32,938	31,379
	$2,809,676	$6,686,466	$3,876,790

The schedule of overexpenditure of spending authorities indicates that a significant number of departments have exceeded authorized spending limits.

We also noted that the Department of Employment Services and Economic Security incurred expenditures in excess of its spending authority again this year. The Department had requested additional authority to cover the anticipated social allowances program shortfall, however, this request was declined. In addition, Jobs Fund programs administered by the Department operated at a level approximately $1.3 million in excess of the funding approved by Jobs Fund authorities for the fiscal year. The matter of overspending in the Jobs Fund programs administered by the Department occurred because the Department exceeded the funding authority provided to it and did not take the appropriate steps to obtain the additional authority required. However, sufficient funding authority was available in the Jobs Fund appropriation.

We also noted that the Department of Culture, Heritage and Recreation incurred expenditures relating to Communications Services in excess of its spending authority again this year. This overspending has arisen as a result of inappropriate control over expenditures and recoveries in the operation of the Queen's Printer. Senior departmental officials have indicated that further action has been taken to correct this unsatisfactory condition. While we appreciate that control of this operation is complicated by the need to obtain recoveries from other departments, appropriate planning, controls and monitoring would ensure that the Queen's Printer operates within its legislated net expenditure level or seeks additional funding authority.

Our previous report indicated that Department of Finance Treasury Board support staff were to review this matter and provide guidance to the departments involved in last year's overexpenditure. The increase in the extent of the overexpenditure indicates that the efforts to correct this situation haven't been effective and that further effort is required.

We consider departmental overexpenditure of legislative authority to be a serious matter; Treasury Board support staff are reviewing this situation with the view of providing additional guidance to departments. They have informed us that they intend to issue a Financial Administration Information Circular to clarify expectations and departmental responsibilities for departmental commitments.

As a special project for the fiscal year ending March 31, 1987, we will be working with departmental officials and reviewing departmental commitment and expenditure systems on a broad basis, with special emphasis on year-end controls, to determine whether further improvements are required to resolve this situation.

Brandon University

We are concerned that the University may be unable to repay its liability of $1.3 million on the Queen Elizabeth II Music Building from funds other than those which may have to be provided by the Government. Order-in-Council 1005/84 requires that the University repay this liability from its own resources without using funds provided by the Government. Funds raised to the end of March 31, 1986 have not been sufficient to pay the interest on this debt. Since the University has not developed a documented plan for the repayment of principal and interest over a reasonable period of time, we believe that there is a considerable risk that Government resources may be required for the retirement of this debt. Officials of the University have indicated that such a documented plan is under development.

We recommend that the University proceed to develop and implement this plan as expeditiously as possible.

Channel Area Loggers Ltd.

Channel Area Loggers Ltd., as one of its objectives, is attempting to train residents of the Berens River area as both skilled employees and competent managers. Company staff have experienced considerable difficulty in following prudent business operating procedures. These procedures are designed to assist in the maintenance of reliable accounting records, appropriate reporting to the Board, the orderly and efficient conduct of Company business and the safeguarding of Company assets. The Company requires assistance with respect to control procedures such as certifying that goods and services have been received before payment is made; monitoring of stock usage for control purposes; and maintaining accounting records in a current position so that they tie in to physical assets. During the past year, the Department of Crown Investments provided assistance to the Company. No such assistance is contemplated for the year ending March 31, 1987. We are concerned that if appropriate ongoing assistance is not provided, there is an undue level of

risk that Company assets may not be appropriately safeguarded and that business practices may continue to be carried out at a less than satisfactory level. Furthermore, Company staff may not receive the necessary training to assist them in becoming skilled employees and competent managers. We recommend that the Department of Northern Affairs provide ongoing assistance designed to ensure that accounting records are maintained in a current position; that appropriate reporting to the Board takes place; that prudent business practices are followed; that Company assets are appropriately safeguarded and; that employees' management and administrative skills are strengthened.

Communities Economic Development Fund

Last year we reported that there were certain deficiencies in the Fund's documentation and monitoring policies and procedures with respect to the loans it makes. It was our view that if these deficiencies were not addressed the Fund's management might be precluded from taking appropriate action on a timely basis to protect public funds. Consequently, we recommended that the Fund's Board strengthen its documentation and monitoring policies for its loan portfolio.

Although the Fund has taken partial action to resolve some of our concerns, we believe that further strengthening of controls is required.

The Communities Economic Development Fund Act empowers the Fund to provide financial assistance to individuals, companies, and others to encourage the economic development of remote and isolated communities within the Province. The Act authorizes the Fund to provide financial assistance, including loans, where an applicant cannot obtain sufficient funds from other sources. In providing financial assistance, the Act requires the Fund to do so in a manner that will encourage other lending and financial institutions to assist in financing the enterprise and, to take into consideration the terms upon which similar financial assistance is normally provided by other institutions and the risk involved.

Although the Fund may be a lender of last resort, the Fund should adhere to policies and procedures such that there is a presumption that loan repayment is expected and public funds are protected.

We recommend that the Fund's Board take appropriate action to continue to strengthen its researching, recommending, approving, monitoring and documentation procedures for loans. These actions should include the development of a manual and a set of explicit instructions for those responsible for the researching, recommending, approving and monitoring of loans. This would improve accountability over the loan process. In our view, this would also result in the strengthening of controls for the safeguarding of public funds such that there is a presumption that loan repayment is expected and public funds are protected.

Legal Aid Services Society of Manitoba

We have reported for several years that the Society has had to delay payment of accounts at year-end because of the lack of funds provided by the Government of the Province of Manitoba. The situation did not change for the fiscal year ended March 31, 1986. At the year-end there were approximately $360 thousand of Legal Aid billings received but unpaid and approximately $80 thousand of unpaid operating expenses, for a total of $440 thousand (1985 - $580 thousand). We are encouraged somewhat by the downward trend in these balances.

We again recommend that the necessary funds be provided in the Province's appropriation in the appropriate fiscal year so that expenditures are not being deferred to the subsequent fiscal year. Such deferrals result in the understatement of expenditures for both the Society and the Province. These deferrals also contribute to unrealistic operating plans by the Society and the Province. Officials of the Society and the Department of the Attorney-General have held discussions and will work towards resolving the matter for the 1986-87 fiscal year.

Manfor Ltd.

Manfor Ltd. continues to experience significant losses on its operations. The loss for the fifteen months ended December 31, 1985 amounted to $31.3 million (12 months ended September 30, 1984 - $9.4 million); resulting in an accumulated deficit as at December 31, 1985 of $126.2 million.

DEPARTMENTS AND AGENCIES OPERATIONS

In the past year, direction by the Government, and concern by the Board and the new senior management, have resulted in significant changes to the organization and operating approach of the Company. The changes include significantly more emphasis upon key management areas to address issues that have developed over a period of years. Greater emphasis is now being given to improve long-range planning, budgeting practices, and to develop appropriate costing and other financial information to assist with cost reduction and other operating decisions. Steps have also been taken to involve staff at all levels in assisting with cost reductions. We have been advised that the budget for the period since our last audit report formed a realistic basis for monitoring operations and that operating results to the end of September, 1986 are somewhat better than budgeted.

We recognize that external economic factors beyond the control of the Company have been a factor in contributing to these losses. However, we believe that the attention being given to the key components of management is an essential part of bringing the operations of Manfor Ltd. to an acceptable level.

We encourage the Company to continue these efforts to improve the management practices and information systems.

Manitoba Beef Commission

We are concerned with the long-term viability of the Commission and, accordingly, have a related concern regarding its ability to repay advances it has received from the Government of the Province of Manitoba. It is our understanding that the Commission is intended to be self-sufficient and to conduct its operations without a subsidy from the Government of the Province of Manitoba. However, there have been recent dramatic increases in the accumulated deficit of the Commission to a total of $27.3 million. These arise in part out of significant losses of $11.5 million and $7.5 million for the years ended March 31, 1986 and 1985, respectively. This was accompanied by an increase in the level of advances from the Province to approximately $29.5 million as at March 31, 1986. The significant deficit, together with the fact that the producers who contributed to the deficit have no liability after eight years, and that producers who have accumulated surpluses may withdraw them at any time, significantly increases the risk that the Commission may not be able to repay these advances. The Commission has not yet adopted a long-range plan with respect to the resolution of these financial difficulties. We acknowledge that the Commission made changes to its programs and has recently made further changes to the terms of the program which may mitigate the effect of the financial difficulties. We have been advised that the Board is committed to making further adjustments as circumstances warrant and will be working to improve volume and price forecasting for decision-making purposes. We recommend that the Commission take steps to develop, on a priority basis, a long-range plan which clearly provides a realistic approach to achieving the goal of self-sufficiency for the Commission.

Manitoba Development Corporation - Subsidiary and Investment Under Part II of the Act

General

The Manitoba Development Corporation's (MDC) activities under Part II of The Development Corporation Act are initiated by the Government and MDC acts as the agent for the Government in respect to the projects undertaken. Sections 41 and 42 of the Act and Section 7 of Revised Regulation D60-R1 require that MDC be reimbursed for its costs incurred in respect to Part II activities.

MDC presently is not being fully reimbursed for costs incurred on behalf of Part II activities. This is not in accordance with the Act. This has been confirmed in a legal opinion which MDC obtained from the Attorney-General's Department. MDC estimates that approximately $100,000 for each of the years ended March 31, 1986 and March 31, 1985, have not been reimbursed to MDC. These costs have in effect been absorbed by MDC. This increases MDC's loss by $100,000 and results in a corresponding increase in the valuation allowance in the Public Accounts. This practice also understates departmental expenditures in the Public Accounts of the Government by an equivalent amount.

We recommend that MDC meet with Govern-

ment officials as soon as possible and action be taken to ensure compliance with the Act. Officials at MDC have indicated that they intend to do so as a matter of priority.

Flyer Industries Limited

Our report to the Legislature for the previous year indicated that the Government was exploring several options regarding Flyer and that we had been advised that a decision regarding the future of Flyer was to be made shortly.

Effective July 15, 1986, Flyer was sold to BV Carrosseriefabriek den Oudsten en Zonen. As a result of this divestiture, the overall net cost to Manitoba is estimated to be in the range of $96 - $100 million. Approximately $14 million will be paid directly by the Province with the remainder being processed through MDC. A net amount of approximately $81 million of these costs had been disbursed as of September 30, 1986.

Further details on the divestiture are presented in the notes to the Public Accounts which are reproduced in Exhibit 12.

A. E. McKenzie Co. Ltd. and Subsidiaries

Because of allegations of a conflict of interest against three officers three years ago, we undertook a special audit and our findings were previously reported. The Corporation initiated civil action for recovery of assets; this matter has not been finalized as yet.

A police investigation was also undertaken which resulted in charges being laid. The court action in respect of these charges has now been completed and has resulted in the conviction of three officers.

Saunders Aircraft Corporation Limited - In Receivership

We previously reported that Saunders Aircraft Corporation Limited was placed in receivership by the Manitoba Development Corporation (MDC) on May 20, 1976. We also provided a summary of cash transactions and other pertinent data from that date.

A summary of the receipts and disbursements during the period of receivership up to September 25, 1986 is as follows:

DEPARTMENTS AND AGENCIES OPERATIONS

	May 20, 1976 to Sept. 30, 1985 (reported last year)	October 1, 1985 to Sept. 25, 1986 (subsequent transactions)	Total
Receipts:			
Funds provided mainly for payment of liabilities and for working capital by:			
Manitoba Development Corporation	$ 351,184	$ -	$ 351,184
Government of the Province of Manitoba	176,942	-	176,942
	528,126	-	528,126
Proceeds from sale of assets	1,819,177	-	1,819,177
Collection of accounts receivable outstanding May 20, 1976	1,094,105	125,000	1,219,105
Aircraft leasing and other income	198,487	-	198,487
Interest income on surplus funds, net	456,107	3,590	459,697
Other	-	3,037	3,037
Total receipts	4,096,002	131,627	4,227,629
Disbursements:			
Funds transferred to the Government of the Province of Manitoba	1,591,567	-	1,591,567
Payment of liabilities outstanding May 20, 1976	557,519	-	557,519
Salaries, wages and benefits	360,501	-	360,501
Insurance premiums	533,436	-	533,436
Receiver's fees, legal and other professional costs	565,311	6,912	572,223
Other operating costs	495,867	2	495,869
Total disbursements	4,104,201	6,914	4,111,115
Receipts over (under) disbursements	$ (8,199)	$ 124,713	116,514
Funds on hand May 20, 1976			26,173
Funds held by the receiver-manager September 25,1986			$ 142,687

The Receiver-Manager has informed MDC that once the legal documents are completed regarding the final realization from the receivership, he will assign the right to collect the remaining $75,000 of the settlement to MDC. The Receiver-Manager will then apply to the courts for his discharge as Receiver-Manager. The discharge of the Receiver-Manager is expected within the next few months.

DEPARTMENTS AND AGENCIES OPERATIONS

The Pas Forestry Complex - Receiver

The Receiver's activities concerning The Pas Forestry Complex are substantially complete. A final settlement agreement was reached and funds, including interest, in the amount of $3,002,219 were transferred through the Manitoba Development Corporation to the Province of Manitoba in May, 1986. Third party proceedings with respect to the settlement are continuing. The remaining funds in the Receiver's accounts will be transferred to the Province of Manitoba in the near future and the Receiver will apply to the courts to be discharged when the third party proceedings have been finalized.

A summary of the Receiver's accounts for the fiscal years ended September 30, 1985, and 1984 are presented below as a matter of information:

	September 30 1985	1984
Receipts:		
Interest income	$ 35,918	$ 31,987
Disbursements:		
Receiver's operating expenses	3,000	1,502
Receipts over disbursements	32,918	30,485
Funds on hand, beginning of year	372,058	341,573
Funds on hand, end of year	$ 404,976	$ 372,058
Cash in bank and term deposits	$ 176,341	$ 143,423
Funds on deposit with Minister of Finance	228,635	228,635
	$ 404,976	$ 372,058

DEPARTMENTS AND AGENCIES OPERATIONS

Manitoba Health Services Commission

For several years we have recommended that an internal audit function be established in the teaching hospitals since this function can be an effective aid to management. Last year, we reported that one of the teaching hospitals had implemented an internal audit function. While the other teaching hospital had made a submission to the Commission for the establishment of an internal audit function in its organization, the internal audit function had not yet been instituted at that hospital.

Although establishment of the internal audit function has been recommended for several years, and the Commission and the hospital have been supportive of this recommendation, this function has still not been established. We have recently been advised the teaching hospital is currently actively working to establish an internal audit function.

Manitoba Housing and Renewal Corporation

Budgeting Practices

We previously reported that the budget process would be enhanced and better coordindated if a total corporate budget, in the same format as the annual statement of operations was prepared annually and compared against actual results with significant variances being analyzed. This process is now in place. We consider the matter resolved.

Overexpenditures on rehabilitation of housing units

We previously expressed a concern with respect to the dispute with Canada Mortgage and Housing Corporation (CMHC) over the shareability of cost overruns. This dispute has been settled with CMHC paying its share of the cost overruns. We consider this issue resolved.

Manitoba Lotteries Foundation

Last year we noted that the Foundation was proceeding with the review of its administrative policies and procedures. This review included certain aspects of its organizational structure, with a view to strengthening its controls and processes to address concerns identified by management and staff and through the audit process.

During the past year the Foundation has taken steps to resolve a significant number of these administrative and control problems and are in the process of addressing the remaining outstanding matters.

We are pleased with the significant progress made and encourage the Foundation to continue with its review and action plan to resolve the remaining issues.

DEPARTMENTS AND AGENCIES OPERATIONS

Manitoba Telephone System

As a matter of information to supplement that disclosed in the System's financial statements, the following analysis of the changes in the Investment Fund account for the current and prior fiscal years is provided (*in millions of dollars*):

	March 31 1986	March 31 1985
Balance of the Fund beginning of year	$ 45.4	$ 32.2
Foreign exchange loss transactions:		
Balance beginning of year	25.6	27.0
Add:		
Cash set aside equal to the unrealized losses charged to operations	16.7	.1
	42.3	27.1
Deduct:		
Cash withdrawn to cover the realized losses on redemptions	4.2	1.5
Balance end of year	38.1	25.6
Other transactions:		
Balance beginning of year	19.8	5.1
Add:		
Cash transferred to the Fund as directed by the Board	12.3	14.7
Balance end of year	32.1	19.8
Balance of the Fund end of year	$ 70.2	$ 45.4

DEPARTMENTS AND AGENCIES OPERATIONS

MTX Telecom Services Inc.

In our report last year we indicated that several key aspects of the management information system were not operating at a satisfactory level. We noted that this concern related to both MTX Telecom Services Inc. (MTX) as a wholly-owned subsidiary of the Manitoba Telephone System, and to Saudi Arabia Data Communications Co. Ltd., a company in which MTX has a 50% interest. We were concerned that the areas of planning, budgeting, and financial reporting to the Board had not received sufficient attention. We recommended that MTX take steps to improve its management accountability system through improvements to its planning, budgeting and financial reporting systems.

Our review for the year ended March 31, 1986 indicates that the situation remains substantially unchanged and that the accounting records were not up-to-date. Since that time the Government has acted, together with Manitoba Telephone System, to provide additional resources to bring the records to a current position.

The Government has also engaged a firm of management consultants to review the management practices and operations of MTX and to make recommendations on these matters, as well as MTX's continued operation. The Royal Canadian Mounted Police has been requested to review certain allegations of illegal activities related to MTX and its officials.

Universities Grants Commission

We are concerned that one post-secondary educational institution is subsidizing the operations of other post-secondary educational institutions through the provision of computer services below cost. In our view, the billing to the other post-secondary education institutions for the computer services should be based on actual operating costs. If this is not done, control over computer resources in the subsidized institution is weakened. This increases the risk that computer systems may be developed which would be difficult to justify based on actual costs. We are also concerned that other programs at the subsidizing institution may be adversely affected if it is required to subsidize other institutions.

We recommend that the Commission develop a new arrangement whereby each educational institution pays an appropriate amount for use of computer resources.

University of Winnipeg

We have been concerned that the University has not had appropriate procedures in place for accountability and protection of the fixed assets for which it has stewardship responsibility. In our view, in the absence of these procedures, the University has been taking undue risk that assets may be lost, with the potential that expenditure of public funds could be required for their replacement. We have been working with senior officials of the University, primarily to assist them in the determination of appropriate steps which could be taken to improve accountability for these assets and which may also minimize loss in the event of a major disaster. While the University has taken certain steps in the past year to strengthen accountability procedures and to protect the University in the event of a major loss through fire, these steps are not sufficient to fully resolve our concerns. We recommend that the University give priority attention to expedite the development of an appropriate accountability system in this key area. We have been advised that the University has taken certain steps and will be implementing other procedures which resolve this concern.

Workers Compensation Board

We have reported for several years that the operations of the Workers Compensation Board are not in compliance with The Workers Compensation Act. This has resulted in a deterioration of the financial position of the Class Fund.

In the period from 1981 to 1985, annual deficits amounting to $62.7 million have been incurred in the Class Fund; a further deficit of approximately $13 million, subject to actuarial adjustments to reserve liabilities, is projected for the year ended December 31, 1986. The effect of these deficits will be to change a surplus of $36.9 million in the Class Fund as at December 31, 1980 into an accumulated deficit in excess of $39.0 million by December 31, 1986, a negative change of approximately $76 million.

We note that the Board has identified and recommended increases in the assessment rates to fund these deficits. To date, increases in the assessment rates in the appropriate amounts have not been approved by the Government.

We are concerned that the failure to charge adequate assessment rates will result in an unfair burden being placed on future employers. The effect of this is that future employers will have to pay for acci-

dents that happened in previous years for which they had no responsibility. In our view, this is contrary to existing legislation and is an inequity that should be resolved in a timely manner.

In 1985 the Government of the Province of Manitoba appointed a committee under Section 100 of The Workers Compensation Act to review the compensation system in Manitoba. This Committee commenced its review in 1985; the review is continuing. However, the review is not expected to be completed until mid 1987. A firm date has not been set for submission of the Committee report.

We are hopeful that the Committee will be able to complete its task in a timely manner and that its review will result in recommendations which, when implemented, will bring the activities of the Board into compliance with legislation and result in the adoption of a sound fiscal policy for funding the Board's operations.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Scope of Audit and Reporting Procedures

The scope of my Office's audit and reporting procedures, as set out in Exhibit 1 of this report, is consistent with that of the preceding year. The audits and reports thereon are up-to-date.

In addition to the audit of the Government of the Province of Manitoba, 57 Government agencies were audited and their financial statements are either reported on, or in process of being reported on, by my Office. The 57 agencies are listed in Exhibit 2 of this report. This total represents one less audit than for the preceding year. There were two deletions; Winnipeg Racing Ltd., which ceased operations, A. E. McKenzie Co. Ltd. and Subsidiaries, which became an overview audit; and there was a new audit, Limestone Training & Employment Agency.

My Office also carried out overview audits of the 20 Government agencies listed in Exhibit 3 of this report; the attest audits of these agencies were done by private sector audit firms. This is two more overviews than were done by my Office in the previous year. The two additional overviews carried out during the year were Manitoba Oil and Gas Corporation and A. E. McKenzie Co. Ltd. and Subsidiaries.

The Provincial Auditor was requested by the Minister of Finance to undertake five special audits since March 31, 1986. These special audit requests came within a brief period of time and necessitated the repriorization of certain of our other ongoing work. Staff of line departments participated in certain of this work. This helped to reduce the demands on the time of staff of this Office and provided additional experience to departmental internal audit staff.

Our special audit reports were made public. Accordingly, only a very brief summary of the concerns and recommendations related to this work is included below:

Manitoba Public Insurance Corporation

Our audit addressed allegations pertaining to the Corporation's disposal of vehicles, personnel practices, executive expense accounts and the purchase of crystal and china. Our audit report validated the allegations and recommended that the Corporation take appropriate action and strengthen its controls and administrative practices.

Workers Compensation Board

We carried out a review of the hiring practices of the Board and the matter of a possible conflict of interest on the part of a senior executive in the hiring process. Our report recommended strengthening the Board's administrative procedures pertaining to its hiring practices. We concluded that the senior executive was not involved in a conflict of interest situation.

Brokerage Building

We carried out an indepth review of transactions with the Government of the Province of Manitoba, the Co-operative Loans and Loans Guarantee Board, the Manitoba Hydro-Electric Board, the Limestone Training & Employment Agency and the Manitoba Energy Authority related to the Brokerage Building, its investors and tenants. Our report included the following:

Government of the Province of Manitoba

> We concluded that that there was no evidence or indication that any government official influenced decisions respecting transactions with tenants or investors in the Brokerage Building. Our recommendations included continuing the efforts to make staff at all levels aware of situations to be avoided regarding conflict of interest or perceived influence; to strengthen administrative procedures pertaining to the tendering process and practices; to improve contract documentation; to review the necessity for substantial advance payments on signing of service contracts, and; to clarify administrative expectations for advertising programs.

The Co-operative Loans and Loans Guarantee Board

> We recommended that the Board seek legal counsel before loan or loan guarantee applications are approved, and once approved, before amendment.

Our audit did not result in any recommendation regarding transactions reviewed pertaining to the Manitoba Hydro-Electric Board, the Limestone Training & Employment Agency and the Manitoba Energy Authority.

The October Partnership

Our report recommended that additional consideration be given to developing legislation or policy addressing the issue of contracting with former employees.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Department of Natural Resources

Our audit addressed allegations concerning possible irregularities in vehicle, expense and attendance reporting by a senior official. Our report validated the allegations concerning irregularities in the official's vehicle and expense reports and recommended that an assessment be made to recover the official's personal portion of the expenditures and that departmental controls be strengthened.

The work performed during the five special audits was interesting and challenging to the staff members who participated in it. It was a broadening experience. It necessitated different approaches, including contacting other jurisdictions to determine what policies, procedures and practices were employed in those jurisdictions for comparative purposes with the approaches used in Manitoba. Because of the experience gained as a result of this work, we were able to identify opportunities to revise our broader audit scope procedures, and to identify staff training requirements pertaining to special audit practice. We will be working to develop the required materials and activities as soon as practicable.

Organization

The manner in which this Office is organized is shown in the Organizational Chart, Exhibit 4 of this report. The organizational structure has not changed from that of the preceding year, but the responsibilities of the Director of Audit Administration and Professional Development have been broadened to include professional development as well as quality control.

Staffing

In our previous year's report we indicated that our authorized staff complement was established at 61 positions. In September 1986, we requested deletion of two positions from our authorized staff complement for which no funds had been requested for several years. Our current complement is 59 positions. These 59 positions consist of 5 senior managers (management committee); 3 specialists (2 in computer auditing, and 1 in operational auditing); 12 senior auditors; 35 auditors, technical staff and accounting students; and 4 administrative and secretarial staff. We had 23 Chartered Accountants, 7 Certified Management Accountants and 6 Certified General Accountants on staff as at September 30, 1986. The actual staff persons utilized for the fiscal year ended March 31, 1986 were 55.02 as compared with 55.06 for the preceding year.

Through prompt replacement, and the careful use of term employment, we are able to gear our recruitment program to workload demands. In our operations there frequently are a number of vacancies in authorized positions. As at September 30, 1986, 57 people were on staff. We are able to fill vacancies as needed.

We have continued to use the services of a partner from an international audit firm on a contract basis. This partner specializes in computer auditing and he is used to ensure that our Office maintains its high professional standards in this increasingly complex area of auditing. In addition to providing advice and assistance by telephone and through correspondence, this specialist worked for 8 days in our Office during the fiscal year ended March 31, 1986.

Staff Training

Staff training is provided through a combination of on-the-job training, formal instructional courses and participation in various conferences sponsored by professional organizations. However, recognizing the intent of financial constraints placed on all government departments, we deliver most of our formal training in-house, using our own staff, or other government officials.

Our in-house courses are mainly designed to provide training related to our Office's responsibilities, government policies and updates of developments in our profession. In addition to these courses, our formal training includes courses organized and conducted by the Civil Service Commission.

We are required to maintain a knowledge of current developments and technology in our profession. Memberships are maintained by various staff in professional accounting associations. Memberships are also maintained in such associations as the E.D.P. Auditors Association, Institute of Internal Auditors, Institute of Public Administration, and the Canadian Comprehensive Auditing Foundation. These organizations sponsor educational conferences, a number of which are attended by selected members of our staff.

Educational assistance is provided to staff who are registered students in the professional C.A., C.M.A. and C.G.A. programs. These staff participate in the formal student instructional courses provided by these organizations. Educational assistance is also provided to several staff members who are continuing to broaden their education through specialized courses offered by the University of Manitoba.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

My Office also participates in the Legislative Auditors' Practices Committee of the Legislative Auditors' Offices in Canada. This Committee provides a forum for exchange of valuable information for training based on the experiences of the various legislative audit offices. We have found this to be an effective means of staying abreast of the training trends and courses available at the various legislative audit offices across Canada.

During the past year my Office has taken steps to provide a more direct focus on professional development. Recently, we have increased this emphasis by assigning the Director of Audit Administration and Professional Development responsibility for direct coordination of the professional development and audit administration components of our Office. This Director has been assigned senior audit manager's assistance to help him fulfill this responsibility effectively. This will provide for a more effective linkage for identification of staff training needs, and integration of our policy development and training functions.

Training in management functions and skills continues to be a high priority in our professional development plans. This shift in emphasis away from the accounting and auditing technical training is intended to broaden our auditors' knowledge of senior management responsibilities in order to provide the most effective service practical to managers in Government departments and agencies.

Our program for training computer programmers amongst our staff has progressed well. With the acquisition of a microcomputer, and audit related computer programs, we have increased the number of computer trainees and developed several computer applications during the current year. We expect further significant progress in expanding our staff development in this program over the next year.

Revenue and Expenditure

The revenue and expenditure of the Office for the year ended March 31, 1986 as compared with budget, and with the actual revenue and expenditure of the preceding year, are as follows (*in thousands of dollars*):

	Budget	Actual		
	March 31 1986	March 31 1986	1985	Increase (Decrease)
Revenue	$ 690.0	$ 679.8	$ 727.4	$ (47.6)
Expenditure:				
Salary	2,212.3	2,133.2	2,130.9	2.3
Other	111.0	102.2	93.5	8.7
	2,323.3	2,235.4	2,224.4	11.0
Net expenditure	$1,633.3	$1,555.6	$1,497.0	$ 58.6

Variance explanations:

Revenue

The decline in revenue results from the change in the year end of a major auditee. This has resulted in the deferral of the related audit work and the billing thereof.

Expenditure

The variance between budget and actual expenditure is accounted for by staff turnover and by our on-going cooperative response to the Government's financial restraint program.

Audit of the Accounts of the Provincial Auditor's Office

An audit of the accounts of the Provincial Auditor's Office in accordance with section 19 of The Provincial Auditor's Act was carried out for the year ended March 31, 1986 by a professional accountant from the Comptroller's Division, Department of Finance. A copy of the audit report, which was issued to the Minister of Finance, is included as Exhibit 5 in this report.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Meeting of Legislative Auditors

The Canadian Conference of Legislative Auditors, an informal association of the legislative auditors of Canada and the Provinces, held its fourteenth annual meeting in Regina, Saskatchewan, July 7-9, 1986. These meetings, which we attend, serve as a useful forum for the exchange of information on matters of mutual interest, and the discussion of technical information important to the work of our Offices.

The 1987 Canadian Conference of Legislative Auditors is being arranged by the Auditor General of Quebec and it will be held in Quebec City, Quebec.

ACKNOWLEDGEMENTS

My staff and I are pleased to express our appreciation for the cooperation and assistance extended to us during our audits by officials and staff of departments, crown agencies and grantees.

We would also like to thank the members of the Legislative Assembly for their understanding, support and assistance.

Also, I wish to thank the staff of my Office for their support during the past year.

November 27, 1986,
Winnipeg, Manitoba

F. H. Jackson, C.A.,
Provincial Auditor.

EXHIBITS

1. Scope of audit and reporting procedures.

2. Schedule of Government Agencies whose financial statements were audited and reported on by the Provincial Auditor's Office.

3. Schedule of Government Agencies whose financial statements were audited and reported on by Private-Sector Audit Firms with an overview audit by the Provincial Auditor's Office.

4. Organizational chart of the Provincial Auditor's Office.

5. Report on the audit of the Provincial Auditor's Office.

6. Summary of Special Warrants by Departments.

7. A reproduction of the Provincial Auditor's Report in the Public Accounts.

8. A reproduction of the Government of the Province of Manitoba Statement of Responsibility for the preparation of the financial statements.

9. A reproduction of the Statement of Financial Position - Operating Fund.

10. A reproduction of the Statement of Revenue and Expenditure.

11. A reproduction of the Statement of Changes in Financial Position - Operating Fund.

12. A reproduction of the Notes and Schedules to the Financial Statements.

13. A reproduction of the Accounting Policies - Statement and Applications.

14. A reproduction of the Trust Fund Assets and Liabilities.

SCOPE OF AUDIT AND REPORTING PROCEDURES

General Comments

In accordance with The Provincial Auditor's Act, the Provincial Auditor's Office is required to carry out various kinds of audits, and a monitoring of accountability to the Legislature concerning the Government, its agencies and recipients of public moneys. The Office carries out financial and broad scope administrative management audits of the Government and certain of its agencies, administrative management overview audits of the remaining government agencies whose financial audits are carried out by private-sector audit firms, and inspection audits of selected recipients of public moneys. Further particulars regarding these activities and their reporting procedures are outlined in the following sections.

Role And Mission

Our Office carries out one program which consists of several ongoing interrelated activities. These activities are prescribed in The Provincial Auditor's Act and consist of:

- —audit of Government of the Province of Manitoba
- —attest and overview audit of assigned Crown agencies
- —overview audit of Crown agencies
- —inspection audits
- —special audits

The objectives of these activities are enunciated in our Office's role and mission statement, and include:

- —independent, objective reporting to the Legislature regarding administrative and financial systems that are in place,
- —independent, objective reporting to the Legislature that there is authority for expenditures made,
- —independent, objective audits, evaluations and reports on special situations of significance to the Legislature and/or Government of an administrative or operational nature, either at the request of the Minister of Finance, or on our own initiative,
- —independent, objective reporting to taxpayers and investors through the expression of professional opinions on the annual financial statements of the Government of the Province of Manitoba and its agencies and on prospectuses,
- —independent, objective reporting to the Government that there are appropriate accountability systems within organizations whose operations are significantly funded by the Province,
- —recommendations leading to the development of improved administrative and financial systems through constructive communication and advice to managers at all levels,
- —leadership to the auditing, financial and program managers in government in the areas of effective use of technology to improve controls, efficiency and effectiveness of administrative systems,
- —independent, objective reporting regarding organizational relationships and arrangements that are designed to achieve the organization's objectives and encourage effective accountability.

This report is one of the main products of the above-mentioned activities.

Audits of the Provincial Government and its Agencies Entirely Audited by the Provincial Auditor

The Government of the Province of Manitoba and the Government agencies listed in Exhibit 2, are audited using a systems based audit approach under the direction of professional staff. These audits consist of the following four components:

1. An examination for expressing an opinion on the fairness of the presentation in the financial statements developed by Government or Crown agency officials is conducted in accordance with generally accepted auditing standards. It includes a general review and evaluation of the accounting procedures and internal financial controls, together with such tests of key financial controls, accounting records, and supporting evidence as are considered necessary in the circumstances.

2. An audit of payments from the Consolidated Fund is carried out on an on-line basis as departmental requests for payment are presented to the central system for processing. This audit is fully coordinated with the systems based audit of departments and meets the pre-audit requirements of sections 10 and 11 of The Provincial Auditor's Act. It also provides an early detection of weaknesses or prob-

SCOPE OF AUDIT AND REPORTING PROCEDURES

lems so that prompt corrective action can be taken. This process also enables my Office to audit special and unusual payments on a timely basis. The audit of payments from the Consolidated Fund consists of:

a) an examination of all requests for payment for legislative authority and approval by designated officials. A review of all significant requests for payment and testing of other documents is also undertaken to satisfy ourselves that they are being handled in a business-like manner to appropriately protect the Province's interests. Requests for payment not meeting the above requirements would be refused. Where legislative authority for payment is lacking, payments cannot be made. Payment requests refused for other reasons can be made, but they require the special authority of the Minister of Finance. Audit observations arising from this audit process are normally attended to in a satisfactory manner so as to preclude any need for refusal. However, should there be a refusal which requires the special authority of the Minister of Finance, the particulars would be fully reported to the Legislature in this report. There was no need for such refusals in the past year.

b) test checking of requests for payments for completeness of supporting documentation, accuracy of arithmetical calculations, compliance with government directives, etc. to satisfy ourselves that the departmental purchasing, payroll and disbursements systems are operating satisfactorily. Matters noted which indicate that further attention is required are referred to the appropriate staff in my Office for further consideration in the evaluation of the departmental systems, and in the development of audit recommendations for improvement. If the testing and evaluation of departmental systems reveals a breakdown, and it is concluded that the work being carried out by departmental personnel could not be relied upon to safeguard provincial funds, further requests for payment would be refused. In such an instance, in accordance with The Provincial Auditor's Act, payments could only then be made on the special authority of the Minister of Finance. Departmental systems are normally corrected to incorporate audit recommendations for improvement on an ongoing basis to maintain the integrity of the systems. However, should this not be done and there was need for refusal of payment requests, the matter would be fully reported to the Legislature in my report.

3. An examination of the administrative management practices and the related key internal controls is undertaken to ascertain that the entity is organized and operating in a business-like manner with due regard for economy, efficiency and effectiveness. This examination is carried out within the capabilities of professional accountants with specialized training and experience. It includes a review of the entity's objectives and organizational structure; its budgeting and monitoring systems in place for comparing actual results with budget and determining variance explanations; its internal audit system and other performance monitoring systems; its purchasing and personnel procedures; and, its compliance with government guidelines.

4. A more in-depth investigation may be undertaken of specific concerns raised or observed during the above-mentioned examinations or noted from other sources. Such other sources may be:

   —the Legislature or any of its committees;
   —the Lieutenant Governor in Council or the Minister of Finance, provided this does not interfere with my primary responsibilities;
   —the news media; and,
   —elected members, public servants and the general public. The sources of this information are held strictly confidential.

Management Overview Audits of Government Agencies Whose Financial Statements Were Audited and Reported on by the Private-Sector Audit Firms

Management overview audits are carried out by my Office for those government agencies listed in Exhibit 3. These are agencies for which audit firms were appointed to carry out audits for reporting on their financial statements. These audits by the audit firms are of a kind as described in the preceding component 1. The management overview audits by the Office consist

SCOPE OF AUDIT AND REPORTING PROCEDURES

of a review of the audited financial statements, management reports of the audit firms, and matters of a broader scope nature as described in the preceding components 3 and 4.

Inspection Audits of Recipients of Public Moneys

Inspection audits of recipients of public moneys are carried out under the authority of section 17(4) of The Provincial Auditor's Act. These audits consist of visits to a limited number of grantees; the audit procedures are similar to those of the management overview audits described in the preceding section. A review of a much larger number of grantees for appropriate accountability is carried out during the audit of government departments and government agencies. These review procedures mainly involve an evaluation of the adequacy of the grantors' monitoring systems and the findings of these systems, together with an assessment of the findings and a determination whether appropriate corrective action is being taken.

Involvement in Prospectuses

The Government of the Province of Manitoba raises funds in the financial markets to meet a portion of its requirements. The funds raised are used to:

—finance general Government programs
—provide advances to Crown Corporations and agencies for capital projects
—replace maturing debt.

Although certain jurisdictions have varying requirements, most require a report from my Office regarding certain aspects of the information included in the prospectus document. Accordingly, my Office participates in a review of the financial and other information included in the prospectus relating to such financing arrangements.

Over the past several years, the Government has approached the financial markets on an increasing basis to raise its cash requirements; the magnitude of such total borrowings has also generally been increasing. Accordingly, considerable work is required in satisfying ourselves regarding the reasonableness of the information included in the various prospectus documents.

Reporting Procedures

Reporting on financial statements

Reports are issued on the fairness of the presentation of information in the financial statements of the Government of the Province of Manitoba, and of the government agencies listed in Exhibit 2.

Internal reporting

Observations made during the course of our audits identifying weaknesses in internal control, ineffective supervision, records not being up-to-date and any other deficiencies or irregularities are recorded in the working papers and immediately brought to the attention of the officials concerned for appropriate action. Matters of a kind which warrant the attention of ministers and chairpersons of the boards of Government agencies are directed to them and to the Minister of Finance in written reports in accordance with the requirements of subsection (3) of section 12 of The Provincial Auditor's Act. During subsequent visits, these matters are followed-up to ascertain whether appropriate action has been taken to resolve the problems.

Annual report to the Legislative Assembly

Significant matters, which have been reported to ministers and chairpersons of the boards of Government agencies but which have not been resolved within a reasonable period of time, are reported on in my annual report to the Legislative Assembly. A number of significant matters which have been resolved are also included in the annual report. They are of a kind which in the Provincial Auditor's judgement warrant the attention of the Assembly as information, either because they were raised in the Assembly, or a committee of the Assembly, or for reasons of maintaining confidence in the system. Both the problems and the corrective actions are reported.

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Financial Statements were Audited and Reported on by the Provincial Auditor's Office

Name of Organization	Fiscal Year Ended
Alcoholism Foundation of Manitoba	March 31, 1986
Board of Administration under The Embalmers and Funeral Directors' Act	December 31, 1985
Brandon University	March 31, 1986
Brandon University Pension Fund	December 31, 1985
Centre Culturel Franco-Manitobain	March 31, 1986
Channel Area Loggers Limited	March 31, 1986
Civil Service Superannuation Fund	December 31, 1985
Communities Economic Development Fund	March 31, 1986
Co-operative Loans and Loans Guarantee Board	March 31, 1986
Co-operative Promotion Board	March 31, 1986
Criminal Injuries Compensation Board	March 31, 1986
Deer Lodge Centre Inc.	March 31, 1986
Department of Municipal Affairs - Minister's Trust Account	March 31, 1986
Horse Racing Commission	March 31, 1986
Leaf Rapids Town Properties Ltd.	March 31, 1986
Legal Aid Services Society of Manitoba	March 31, 1986
Limestone Training & Employment Agency	March 31, 1986
Liquor Control Commission	March 31, 1986
Manitoba Agricultural Credit Corporation	March 31, 1986
Manitoba Arc Authority Incorporated	March 31, 1986
Manitoba Arts Council	March 31, 1986
Manitoba Beef Commission	March 31, 1986
Manitoba Centennial Centre Corporation	March 31, 1986
Manitoba Crop Insurance Corporation	March 31, 1986
Manitoba Data Services Commission	March 31, 1986
Manitoba Development Corporation	March 31, 1986
Manfor Ltd.	December 31, 1985
Manitoba Health Research Council	March 31, 1986
Manitoba Health Services Commission	March 31, 1986
Manitoba Hospital Capital Financing Authority	March 31, 1986
Manitoba Housing and Renewal Corporation	March 31, 1986
Manitoba Intercultural Council	March 31, 1986
Manitoba Lotteries Foundation	March 31, 1986
Manitoba Mental Health Research Foundation	March 31, 1986
Manitoba Milk Prices Review Commission	March 31, 1986
Manitoba Mineral Resources Ltd.	December 31, 1985
Manitoba Research Council	March 31, 1986
Manitoba Text Book Bureau	March 31, 1986
Manitoba Trading Corporation	March 31, 1986
Manitoba Vegetable Producers' Marketing Board	June 30, 1985
Manitoba Water Services Board	March 31, 1986

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Financial Statements were Audited and Reported on by the Provincial Auditor's Office

Name of Organization	Fiscal Year Ended
Moose Lake Loggers Ltd.	March 31, 1986
Municipal Employee Benefits Fund	December 31, 1985
Northern Affairs Fund	March 31, 1986
Peak of the Market Sales Ltd.	June 30, 1985
Public Schools Finance Board	December 31, 1985
Public Service Group Insurance Fund	April 30, 1985
Public Trustee of Manitoba	March 31, 1986
Superannuation Resource Investment Corporation of Manitoba Inc.	December 31, 1985
Teachers' Retirement Allowances Fund	December 31, 1985
Teachers' Retirement Resources Investment Corporation of Manitoba Inc.	December 31, 1985
Universities Grants Commission	March 31, 1986
University of Manitoba	March 31, 1986
University of Manitoba Pension Plan (1970)	December 31, 1985
University of Winnipeg	March 31, 1986
University of Winnipeg Pension Plan	December 31, 1985
Venture Manitoba Tours Ltd.	March 31, 1986

In addition to the foregoing, there are other government agencies which do not have their own funds but carry out their operations through the Consolidated Fund. The operations of these agencies are audited as part of our regular audit of the Consolidated Fund.

Exhibit 3

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Financial Statements were Audited and Reported on by the Private-Sector Audit Firms with an Overview Audit by the Provincial Auditor's Office

Name of Organization	Fiscal Year Ended
A. E. McKenzie Co. Ltd. and Subsidiaries	October 31, 1985
Alonsa Conservation District No. 3	December 31, 1985
Cooks Creek Conservation District No. 5	December 31, 1985
Credit Union Stabilization Fund	December 31, 1985
Flyer Industries Limited	December 31, 1985
Fonds de Sécurité des Caisses Populaires	December 31, 1985
Manitoba Boxing and Wrestling Commission	March 31, 1986
Manitoba Energy Authority	March 31, 1986
Manitoba Hydro-Electric Board	March 31, 1986
Manitoba Oil and Gas Corporation	December 31, 1985
Manitoba Properties Inc.	January 31, 1986
Manitoba Properties Leasing Inc.	December 31, 1985
Manitoba Properties Management Inc.	December 31, 1985
Manitoba Public Insurance Corporation	October 31, 1985
Manitoba Telephone System	March 31, 1986
Rehabilitation Centre for Children Inc.	March 31, 1986
Turtle Mountain Conservation District No. 4	December 31, 1985
Turtle River Watershed Conservation District No. 2	December 31, 1985
Whitemud Watershed Conservation District No. 1	December 31, 1985
Workers Compensation Board	December 31, 1985

ORGANIZATIONAL CHART OF THE PROVINCIAL AUDITOR'S OFFICE

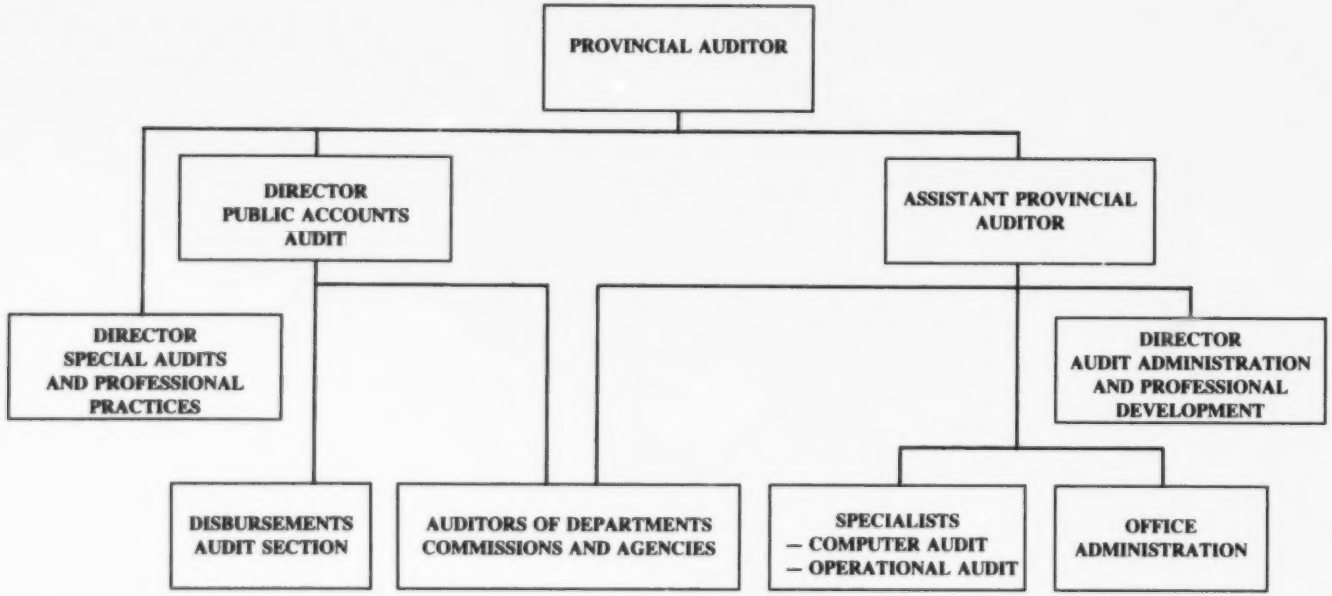


EXHIBIT 4

Exhibit 5

MANITOBA

DEPARTMENT OF FINANCE
Comptroller's Division
42 Legislative Building
Winnipeg, Manitoba
R3C 0V8

August 7, 1986

Honourable Eugene Kostyra
Minister of Finance
103 Legislative Building
Winnipeg, Manitoba

Dear Sir:

Section 19 of the Provincial Auditor's Act states:

> "A qualified auditor nominated by the Executive Council or a committee thereof shall examine the receipts and disbursements of the Office of the Provincial Auditor and shall annually make a report of the outcome of the examination to the assembly which shall be submitted to the member of the Executive Council charged with the administration of The Financial Administration Act on or before the last day of December next following the end of the fiscal year of the government to which the report relates."

My division now performs this audit on a regular basis. Under my direction, an auditor from Financial and Management Systems Branch has conducted an audit of the Provincial Auditor's Office for the year ended March 31, 1986.

The audit was limited to a general review of the accounting procedures and accounting records of the Provincial Auditor's Office. Such tests were performed as were considered necessary in the circumstances.

In my opinion, the accounts of the Audit Office are maintained in an efficient, well organized manner and comply with all the requirements of the Financial Administration Act and all other applicable statutes.

Yours truly,

W. C. Fraser
Comptroller
Department of Finance

c.c. F. H. Jackson

Exhibit 6

GOVERNMENT OF THE PROVINCE OF MANITOBA

Summary of Special Warrants by Departments

Department	Year Ended March 31 1986	1985
Legislation	$ 3,076,300	$ —
Executive Council	—	1,539,800
Agriculture	8,613,000	8,000,000
Attorney-General	1,233,400	767,000
Business Development and Tourism	2,186,500	316,800
Civil Service	235,400	185,400
Community Services and Corrections	6,543,100	778,600
Consumer and Corporate Affairs	41,400	—
Co-operative Development	183,300	—
Crown Investments	—	30,000
Culture, Heritage and Recreation	553,800	—
Education	1,537,600	2,701,400
Employment Services and Economic Security	14,333,300	11,372,700
Energy and Mines	13,500	—
Finance	2,019,200	5,906,000
Government Services	7,343,900	24,000,000
Health	31,147,700	12,678,400
Highways and Transportation	3,574,100	4,471,500
Industry, Trade and Technology	98,200	—
Labour	396,200	—
Natural Resources	1,999,400	5,348,400
Northern Affairs	98,800	63,000
Flood Control and Emergency Expenditures	1,050,000	3,928,000
	$ 86,278,100	$ 82,087,000

REPORT OF THE PROVINCIAL AUDITOR ON THE CONSOLIDATED FUND FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE PROVINCE OF MANITOBA

I report that the Consolidated Fund financial statements included in the Public Accounts of Manitoba have been examined under my direction for the fiscal year ended March 31, 1986. The examination was made in accordance with generally accepted auditing standards and included such tests and other procedures as were considered necessary in the circumstances.

The statement of revenue and expenditure for the fiscal year ended March 31, 1986 reflects capital expenditures in the amount of $277 million (1985 — $292 million) as a reduction to the excess of expenditure over revenue. Capital expenditures are not differentiated from other expenditures in the Government's accounting policies (accounting policy item III,2) and therefore should not be presented in a special manner in the statement of revenue and expenditure.

The statement of revenue and expenditure does not reflect the increase in the amounts considered non-recoverable in the determination of the excess of expenditure over revenue. The financial statements present this increase on a basis consistent with the Government's accounting policies, however, this presentation results in the fragmentation of operating results. The effect of the presentation adopted by the Government in preparing its financial statements for the fiscal year ended March 31, 1986 is an understatement of the excess of expenditure over revenue by $69.9 million (1985 — $42 million). Appropriate presentation would be to include: the increase in the valuation allowance attributable to 1986 operations of $16.9 million, the write-down of the Manitoba Development Corporation shares of $50 million and the write-off of the loan to the Canadian Co-operative Implements Ltd. of $3 million as expenditure prior to the determination of the excess of expenditure over revenue in the statement of revenue and expenditure.

The statement of revenue and expenditure includes as revenue a repayment of $5.3 million, arising from a change in funding of the Manitoba Agricultural Credit Corporation's operations. This amount represents the balance of the Corporation's allowance for doubtful loans as at March 31, 1985, which had been funded in prior years from an appropriation. Application of this amount as revenue is inconsistent with the Province's practices for prior year adjustments which are applied directly to the excess of liabilities over financial assets. The effect of the accounting basis adopted is to understate the excess of expenditure over revenue by $5.3 million.

The Government's valuation allowance accounting policy (application item II — Expenditures) has not been followed in regard to the write-off of its investment of $.5 million in the Northlands Bank. The write-off has not been disclosed as required by the accounting policy but has been included on the statement of revenue and expenditure before the excess of expenditure over revenue. Although I agree, as commented on in the third paragraph, that the charge to an appropriation is appropriate, this is not in accordance with the Government's accounting policy.

The cumulative effect of the matters raised in the preceding four paragraphs is an understatement by $75.2 million (1985 — $42.0 million) of the reported excess of expenditure over revenue of $528 million (1985 — $483 million). These matters do not affect the stated excess of liabilities over financial assets.

In my opinion, except for the matters noted in the five preceding paragraphs, these financial statements present fairly the financial position of the Government of the Province of Manitoba as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with the Government's basis of accounting applied, except for the changes in the accounting policies (explained in note 10 to the financial statements) and the application of the accounting policies pertaining to the valuation allowance (set out in the second last preceding paragraph), on a basis consistent with that of the preceding year.

Winnipeg, Manitoba,
November 27, 1986.

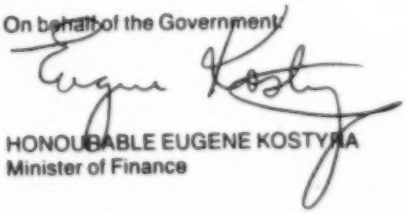
F. H. Jackson, C.A.,
Provincial Auditor.

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF RESPONSIBILITY

Responsibility for the integrity and objectivity of the financial statements rests with the Government. The financial statements are prepared under the direction of the Minister of Finance in accordance with the stated accounting policies of the Government. These summary financial statements include a statement of financial position, a statement of revenue and expenditure, a statement of changes in financial position, accounting policies and notes and schedules integral to the statements. Together, they present fairly, in all material respects the Government's financial condition at the fiscal period–end and results of operations for the year then ended. More detailed information regarding the Government's financial position and operating results can be found in other sections of this volume and in volume 2 of the Public Accounts.

On behalf of the Government



HONOURABLE EUGENE KOSTYRA
Minister of Finance

December 8, 1986

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF FINANCIAL POSITION – OPERATING FUND

AS AT MARCH 31, 1986
(with comparative figures for March 31, 1985)

Schedule No		($ millions) 1986	1985
	FINANCIAL ASSETS		
	Cash and Equivalents	$ 552	$ 636
1.	Revenue Receivable	138	93
2.	Loans and Advances		
	Crown Corporations, Agencies, Boards and Commissions	2,523	2,040
	Other Governments	11	12
	Others	86	66
3.	Long-Term Investments	286	295
	Valuation Allowance	(193)	(173)
	Total Financial Assets	$ 3,403	$ 2,969
	LIABILITIES		
	Amount owing to the Trust Fund	$ 488	$ 526
4.	Accounts Payable, Accrued Charges and Funds Subject to Call	294	235
5.	Borrowings (Note 1):		
	Bonds and Debentures	3,912	3,355
	Canada Pension Plan	1,172	1,139
	Government of Canada	155	158
	Treasury Bills	325	130
	Provision for Unrealized Foreign Currency Losses	209	–
	Total Liabilities	$ 6,555	$ 5,543
	EXCESS OF LIABILITIES OVER FINANCIAL ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE		
	Serial Debentures of School Divisions and Districts	$ 176	$ 189
	Securities Received from Sale of Land and Buildings (Notes 2 and 3)	182	129
	Excess of Liabilities over Financial Assets	2,794	2,256
	Total Excess of Liabilities Over Financial Assets and Similar Items	$ 3,152	$ 2,574

Information concerning the Government's Guaranteed and Indirect Liabilities, Financial Commitments and Contingent Liabilites can be found in the Notes and Schedules To The Financial Statements.

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF REVENUE AND EXPENDITURE

For the Year Ended March 31, 1986
(with comparative figures for the year ended March 31, 1985)

($ millions)

	1986		1985
	Budget Estimate	Actual	Actual
REVENUE			
Manitoba Collections			
Retail Sales Tax	$ 417	$ 437	$ 391
Fuel Taxes	172	164	147
Liquor Control Commission	141	139	136
Levy for Health and Education	116	119	111
Other Taxes	215	208	180
Fees and Other Revenue	161	167	145
Income Taxes			
Corporation Income Tax	130	127	130
Individual Income Tax	652	650	587
Federal Transfers			
Equalization	480	470	478
Health and Higher Education	427	410	405
Shared-Cost and Other	212	226	214
TOTAL REVENUE	$ 3,123	$ 3,117	$ 2,924
EXPENDITURE (Schedule 6)			
Health and Community Services	$ 1,529	$ 1,555	$ 1,447
Education	663	663	654
Economic and Resource Development	543	530	516
Manitoba Tax Credit Plans	199	199	192
Direct Local Government Assistance	120	115	111
Public Debt	263	273	224
Hydro Rates Stabilization	19	34	18
Consumer Services, Public Protection and Other Government Services	283	276	245
TOTAL EXPENDITURE	$ 3,619	$ 3,645	$ 3,407
EXCESS OF EXPENDITURE OVER REVENUE	$ 496	$ 528	$ 483
LESS: GROSS CAPITAL EXPENDITURE	303	277	292
NET OPERATING DEFICIT	$ 193	$ 251	$ 191
AMOUNTS TAKEN TO EXCESS OF LIABILITIES OVER FINANCIAL ASSETS ACCOUNT:			
EXCESS OF EXPENDITURE OVER REVENUE (AS ABOVE)		$ 528	$ 483
SALE OF LAND AND BUILDINGS (NOTES 2 AND 3)		(252)	(324)
WRITE-DOWN OF COMMON SHARES OF MANITOBA DEVELOPMENT CORPORATION (NOTE 8)		50	–
WRITE-OFF OF LOAN TO CANADIAN CO-OPERATIVE IMPLEMENTS LTD (NOTE 9)		3	–
PRIOR YEAR ADJUSTMENTS FOR ACCOUNTING POLICY CHANGES (NOTE 10)		189	–
INCREASE IN VALUATION ALLOWANCE		20	42
TOTAL INCREASE IN EXCESS OF LIABILITIES OVER FINANCIAL ASSETS		$ 538	$ 201

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF CHANGES IN FINANCIAL POSITION – OPERATING FUND

For the Year Ended March 31, 1986
(with comparative figures for the year ended March 31, 1985)

($ millions)

	1986 Budget Estimate	1986 Actual	1985 Actual
Beginning Cash and Equivalents		$ 636	$ 565
Operating Transactions:			
Excess of Expenditure Over Revenue	$ (496)	$ (528)	$ (483)
Non-Cash Items in Revenue and Expenditure:			
Increase in Revenue Receivable	–	(2)	(4)
Increase in Accounts Payable, Accrued Charges and Funds Subject to Call	–	54	14
Provision for Foreign Currency Losses	–	16	–
Cash and Equivalents Required For Operations	$ (496)	$ (460)	$ (473)
Investing Transactions (Note 12):			
Acquired/Made	$ (906)	$ (839)	$ (225)
Redeemed/Realized	117	306	158
Cash and Equivalents Required For Investing	$ (789)	$ (533)	$ (67)
Financing Transactions (Note 12):			
Debt Issued			
Foreign	N.E.	$ 763	$ 413
Domestic	N.E.	526	225
	$ 1,250	$ 1,289	$ 638
Debt Redeemed			
Foreign	(85)	(258)	(111)
Domestic	(9)	(9)	(22)
Payment from Provision for Foreign Currency Losses	(63)	(62)	–
Increase in Sinking Funds	(147)	(212)	(144)
	$ 946	$ 748	$ 361
Sale of Land and Buildings To Manitoba Properties Inc.	200	199	195
Change in Trust Funds	–	(38)	55
Cash and Equivalents Obtained From Financing	$ 1,146	$ 909	$ 611
Change in Cash and Equivalents During Period	$ (139)	$ (84)	$ 71
Ending Cash and Equivalents		$ 552	$ 636
Represented by:			
Cash in Bank (Overdraft)		$ (3)	$ (42)
Term Bank Deposits		210	336
Government and Crown Corporation Bills and Notes		598	555
		$ 805	$ 849
Less:			
Uninvested Cash Belonging to Provincial Sinking Fund		253	213
		$ 552	$ 636

N.E. – Not Estimated

GOVERNMENT OF THE PROVINCE OF MANITOBA

NOTES AND SCHEDULES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1986

1. BORROWINGS

All borrowings are expressed in Canadian dollars. In the case of foreign borrowings, the par value is converted at the exchange rate in effect at the date of issue or the actual conversion rate of the proceeds. When foreign debt is revalued using the exchange rates in effect at March 31, 1986, total borrowings is increased to $7,209 million ($5,642 million for 1985) before deduction of Sinking Funds.

The weighted average rate of interest based on actual interest payments made during 1985–86 was 11.12% (10.87% for 1984–85).

2. SECURITIES RECEIVED FROM SALE OF LAND AND BUILDINGS

During 1984–85 and 1985–86 the Province sold land and buildings with an aggregate value of $917 million to Manitoba Properties Inc. (MPI). The sale was arranged through two intermediary Crown Corporations, Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. and resulted in the Province receiving common shares of these two corporations along with promissory notes of MPI and cash as the purchase consideration. The Province has allocated $341 million of the sales proceeds to a special valuation account to reflect the potential diminution of the common shares that could occur as dividends are paid to the preferred shareholders of MPI. The status of the securities and valuation account at March 31st was as follows:

	($ Millions) 1986	1985
Shares of Manitoba Properties Leasing Inc.	$ 149	$ 100
Shares of Manitoba Properties Management Inc.	149	100
Promissory Notes of Manitoba Properties Inc.	182	129
	$ 480	$ 329
Less: Special Valuation Account	298	200
	$ 182	$ 129

The value of the common shares and the valuation account have each been reduced by $43 million to March 31, 1986 to reflect the dividends paid by MPI as of its most recent fiscal year–end, January 31, 1986.

If the operations of MPI were consolidated in the financial statements of the Province, these securities would not be reflected as assets because they do not represent claims against other parties. Information regarding the effects of consolidation is provided in the following note.

3. EFFECT OF CONSOLIDATION OF MANITOBA PROPERTIES INC.

The sale and subsequent lease–back of land and buildings to Manitoba Properties Inc. has resulted in ownership by the Province of securities that, if the accounts were consolidated, would no longer appear in the Financial Statements because these are not amounts owing by third parties. Consolidation would have the following effect on the Statement of Financial Position at March 31, 1986 and on the Statement of Revenue and Expenditure for the year ended March 31, 1986:

a) As indicated, Securities Received From Sale of Land and Buildings in the amount of $182 million would be eliminated.

b) Promissory notes of $5 million from Manitoba Properties Inc., shown under Loans and Advances, would be eliminated. These funds were advanced to cover administrative costs of Manitoba Properties Inc.

c) Liabilities would be increased by $399 million to reflect the outstanding preferred shares of Manitoba Properties Inc. (with an equivalent decrease in guaranteed and indirect liabilities).

d) The aggregate of these amounts, totalling $586 million, would be an increase to the Excess of Liabilities Over Financial Assets account. This amount exceeds the total of amounts that were originally credited to the excess account at the time of sale by $10 million. This difference results primarily from share issuance and administrative costs incurred by Manitoba Properties Inc.

e) The net effect on the expenditure accounts of the Government would be an increase in public debt costs of $46 million and a decrease in expenditure for other government services of $43 million. (The amounts for March 31, 1985 are $31 million and $24 million respectively).

4. GUARANTEED AND INDIRECT LIABILITIES

Debt issued by Crown Corporations, Agencies, Boards and Commissions which is guaranteed by the Government as at March 31st:

NOTES AND SCHEDULES TO THE FINANCIAL STATEMENTS — Continued

	($ Millions) 1986	1985
Self-supporting Debt	$ 1,531	$ 1,658
Debt of Crown Corporations Whose Main Source of Income is the Consolidated Fund	399	278
Debt Serviced in Whole or in Part from the Consolidated Fund	13	14
	$ 1,943	$ 1,950
LESS: Applicable Sinking and Other Related Trust Funds	262	341
	$ 1,681	$ 1,609

5. **FINANCIAL COMMITMENTS**

The Government has entered into long-term financial arrangments wherein indebtedness has been issued that is not guaranteed by the Government but the funds required for the payment of principal and interest will be either fully or partially provided from appropriations of the Consolidated Fund. As well, the Government has made future commitments against appropriations under long-term contracts which cover the acquisition and/or rental of physical assets. These financial commitments as at March 31st are as follows:

	($ Millions) 1986	1985
LONG-TERM FINANCIAL ARRANGEMENTS:		
Hospitals and personal care homes	$ 298	$ 301
Public Schools	213	219
Manitoba Housing and Renewal Corporation	232	234
Manitoba Water Services Board	3	3
Brandon University	1	1
	$ 747	$ 758
FUTURE COMMITMENTS:		
Acquisition of Physical Assets	102	99
Rental of Physical Assets	96	58
	$ 945	$ 915

In addition to the approved outstanding debt for Hospitals and Personal Care Homes, lines of credit up to $126,505,000 ($55,675,000 as at March 31, 1985) have been approved to finance capital projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

6. **CONTINGENT LIABILITIES**

The Government has provided guarantees for the following and accordingly has a contingent liability in the event of default:

	Maximum Guarantee	Amount Outstanding March 31, 1986	March 31, 1985
		($ Millions)	
Mortgages	$ 1	$ 1	$ 1
Performance Bonds	53	53	53
Promissory Notes	175	126	152
Bank Loans and Lines of Credit	30	18	16
	$ 259	$ 198	$ 222

This does not include Guarantees that may be provided by Crown Corporations, Agencies, Boards and Commissions under their own separate authority.

7. **PENSION LIABILITY**

The Province is required by legislation to pay 50% of the pension disbursements made to retired Provincial employees (with the exception of the share payable by Government Agencies for their employees) and to retired teachers. Such payments are charged to departmental appropriations as incurred and no provision is made to fund current or past service obligations of the Province to the Civil Service Superannuation Fund or to the Teachers Retirement Allowances Fund. The reserves which are presently held in these Funds represent only the employees' obligation towards the total pension liability.

An acturial valuation and report of the Government's liability to The Civil Service Superannuation Fund was determined as at December 31, 1983. The report also provided a formula to update the liability on an annual basis. In accordance with the formula adopted by the actuary, the Government's actuarial liability to The Civil Service Superannuation Fund has been calculated at approximately $285 million as at December 31, 1985 (approximately $250 million as at December 31, 1984). The liability of the Province to The Teachers' Retirement Allowances Fund has not been established by an actuarial

NOTES AND SCHEDULES TO THE FINANCIAL STATEMENTS — Continued

valuation. The reserve which is held in the Teachers' Retirement Allowances Fund, representing the employees' obligation towards the total pension liability, amounted to $413 million as December 31, 1985 ($359 million as at December 31, 1984). The Province's liability should approximate these amounts.

8. **WRITE-DOWN OF COMMON SHARES OF MANITOBA DEVELOPMENT CORPORATION**

The Manitoba Deveopment Corporation (MDC), whose capital stock is wholly owned by the Province, has disposed of it's long term investment in Flyer Industries Limited. Ownership of Flyer Industries has been transferred to BV Carrosseriefabriek Den Oudsten En Zonen of Woerden, Holland effective July 15, 1986.

The accumulated operating losses of Flyer Industries Limited have been recognized annually in the accounts of MDC by means of an allowance for potential losses. The resulting decrease in the value of the MDC capital stock owned by the Province has been provided for by the Province through a valuation allowance placed against these shares ($43.5 million at March 31, 1985). The sale to Den Oudsten has resulted in the recognition of the permanent reduction in the value of MDC capital stock, which has been written down to one dollar. The Province faces additional costs as the result of the divestiture of Flyer Industries that will be borne in the 1986–87 fiscal year and subsequent fiscal years as costs are incurred in accordance with the share purchase agreement between MDC and Den Oudsten. These costs are estimated at $40 million to cover the payment of bank loan guarantees, technology acquisition and training costs, warranties and completion of contracts in process, after allowing for recoveries from the disposal of Flyer assets.

9. **WRITE-OFF OF LOAN TO CANADIAN CO-OPERATIVE IMPLEMENTS LTD.**

Loans in the aggregate amount of $2,975,000 have been deemed uncollectible by the Province and have been written off pursuant to authority provided under the Financial Administration Act. The Province has also guaranteed a bank line of credit for the company, in the amount of $2,800,000 as at March 31, 1986, for which the Province has a contingent liability. This amount is reported in the contingent liabilities shown in Note 6 above.

10. **PRIOR YEAR ADJUSTMENTS RESULTING FROM CHANGES IN ACCOUNTING POLICIES**

Accounting policy changes were made during the fiscal year in order that Public Debt costs would be recorded on an accrual basis rather than the modified cash basis previously followed. These changes resulted in a net increase to the Excess of Liabilities Over Financial Assets Account, as summarized below:

	($ Millions)
Interest payable on trust funds	4
Provision for unrealized foreign currency losses	256
Debt issue costs	(28)
Interest earned from advances and investments	(24)
Sinking Fund investment (discount) premium	(19)
	$ 189

The comparative data presented for the prior year has not been restated to reflect these changes. The effect of these changes on the revenue and expenditure of the current fiscal year has been to decrease the excess of expenditure over revenue by $51 million, mainly as a result of the change in the recognition of foreign currency losses on long-term debt. The losses on debt maturing in 1985–86 were amortized over the life of the debt issues rather than being completely charged to the year of maturity.

11. **LEGISLATIVE AUTHORITY FOR BORROWING AND EXPENDITURE**

Limits established by legislation for borrowing funds and for expenditure from appropriations are shown below along with information regarding any non-compliance with these limits that may have occurred during the fiscal year.

($ Millions)

1) **BORROWING:**

	Appropriaton Acts	Loan Acts
Incremental Non-Lapsing Authority Provided in 1985 Acts	$ 700	$ 1,323
Amount Used During the Fiscal Year Ended March 31, 1986	396	101
Available for Future Years	$ 304	$ 1,222
Unused Borrowing Authority From Loan Acts of Prior Years	–	193
	$ 304	$ 1,415
Less: Encumbered for Specific Purposes	–	71
Unencumbered Borrowing Authority at March 31, 1986	$ 304	$ 1,344

NOTES AND SCHEDULES TO THE FINANCIAL STATEMENTS — Continued

2) **EXPENDITURE:**

A) CHANGES FROM ORIGINAL BUDGET ESTIMATE

The original budget estimate shown on the Statement of Revenue and Expenditure consists of the statutory and voted appropriations that are authorized in the Main and Supplementary Estimates. This amount was increased during the fiscal year as follows:

	($ Millions)
ORIGINAL:	
Main and Supplementary Estimates (including general Statutory Appropriations)	$ 3,619
INCREASED BY:	
Special Warrants	86
Adjustment of estimated amount of statutory appropriations to actual expenditure	24
Total Authorized Expenditure	$ 3,729

B) NON-COMPLIANCE WITH APPROPRIATION LIMITS

Two voted appropriations of the Government ended the fiscal year in a net overexpended position because the programs involved processed expenditures in excess of the amounts recovered from Departments. These programs provide a central service to other Government Departments and, as authorized by the Appropriation Act, incurred expenditures on behalf of Departments in anticipation of recoveries. Because the recoveries did not materialize prior to the close of the fiscal year, the following net overexpenditures were incurred (rounded to the nearest dollar):

Appropriation XIV–3 Communication Services in the Department of Culture, Heritage and Recreation	$ 241,915
Appropriation VIII–4 Project Services in the Department of Government Services	12,310

In addition to the above, fifteen other appropriations of the Government had late accounts paid in the 1986–87 fiscal year that were in excess of the balance remaining in the appropriation at March 31, 1986. Because these late accounts were liabilities at March 31, 1986, they result in non–compliance with appropriation limits established for the respective programs.

12. **COMPARISON TO BUDGET ESTIMATE**

For purposes of providing a meaningful comparison of changes in the Operating Fund financial position with the budget estimate, in addition to the budget data, other internally developed management information has been also included in the budget estimate information.

13. **TRUST FUND**

The Operating Fund financial statements show an amount owing to the Trust Fund which primarily represents surplus cash of Crown Corporations, Agencies, Boards and Commissions on deposit with the Minister of Finance for investment but not specifically invested. The assets and liabilities of the Trust Fund itself as at March 31st are as follows:

	($ Millions) 1986	1985
ASSETS		
Amount due from Operating Fund	$ 488	$ 526
Cash and Investments	569	542
Total Trust Assets	$ 1,057	$ 1,068
LIABILITIES		
Trust Fund Balances	$ 1,057	$ 1,068
Total Trust Liabilities	$ 1,057	$ 1,068

In addition, the Trust Fund includes trust funds where the Government responsibility is custodial in nature. As at March 31, 1986 and March 31, 1985 these funds are reported as $530 million and $458 million, respectively.

GOVERNMENT OF THE PROVINCE OF MANITOBA

REVENUE RECEIVABLE

SCHEDULE 1

As at March 31, 1986

(with comparative figures for the year ended March 31, 1985)

($ millions)

	1986	1985
Tax Revenue:		
Retail Sales Tax	$ 34	$ 31
Motive Fuel Tax	5	4
Gasoline Tax	9	8
Tobacco Tax	6	6
Revenue Act, 1964	3	4
	$ 57	$ 53
Interest Income:		
Province of Manitoba Sinking Fund	$ 16	$ –
Other Investments	13	–
	$ 29	$ –
Government of Canada and Other Governments:		
Shared Cost programs	$ 52	$ 40
	$ 138	$ 93

GOVERNMENT OF THE PROVINCE OF MANITOBA

LOANS AND ADVANCES — SCHEDULE 2

As At March 31, 1986

(with comparative figures for March 31, 1985)

($ Millions)

	Crown Corporations, Agencies, Boards And Commissions	Other Governments	Others	1986 Total	1985 Total
When Due:					
On Demand	$ 161	$ –	$ 46	$ 207	$ 135
1–5 Years	995	5	14	1,014	760
6–10 Years	1,073	4	17	1,094	972
11–20 Years	300	2	9	311	227
Over 20 Years	109	–	–	109	126
Totals	$ 2,638	$ 11	$ 86	$ 2,735	$ 2,220
Less: Sinking Funds	115	–	–	115	102
	$ 2,523	$ 11	$ 86	$ 2,620	$ 2,118
Valuation Allowance	27	–	35	62	36
Net	$ 2,496	$ 11	$ 51	$ 2,558	$ 2,082

GOVERNMENT OF THE PROVINCE OF MANITOBA

LONG-TERM INVESTMENTS — SCHEDULE 3

As at March 31, 1986
(with comparative figures for March 31, 1985)

($ millions)

	Crown Corporations	Others	1986 Total	1985 Total
Shares:				
Common	$ 38	$ 3	$ 41	$ 86
Preferred	241	–	241	205
Debentures	4	–	4	4
	$ 283	$ 3	$ 286	$ 295
Valuation Allowance	130	1	131	137
Net	$ 153	$ 2	$ 155	$ 158

GOVERNMENT OF THE PROVINCE OF MANITOBA

ACCOUNTS PAYABLE, ACCRUED CHARGES AND FUNDS SUBJECT TO CALL — SCHEDULE 4

As at March 31, 1986
(with comparative figures for March 31, 1985)

($ millions)

	1986	1985
Accounts Payable	$ 156	$ 113
Interest Accrued on Provincial Borrowings and Trust Funds	136	122
Funds Subject to Call re:		
Shared Cost Programs	2	–
	$ 294	$ 235

SCHEDULE 5

GOVERNMENT OF THE PROVINCIAL OF MANITOBA

SCHEDULE OF LIABILITIES FOR BORROWINGS

As At March 31, 1986
(with comparative figures for March 31, 1985)

($ millions)

Fiscal Year of Maturity	Bonds and Debentures Cdn $	Bonds and Debentures US $	Bonds and Debentures Other	Canada Pension Plan Cdn $	Govt of Canada Cdn $	Treas Bills Cdn $	Totals 1986	Totals 1985
1986	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 224
1987	101	27	41	32	4	325	530	194
1988	226	16	14	39	4	–	299	299
1989	76	106	141	43	4	–	370	370
1990	1	285	86	45	5	–	422	422
1991	110	298	67	52	5	–	532	347
1987–1991	514	732	349	211	22	325	2,153	1,632
1992–96	658	489	1,154	333	27	–	2,661	2,171
1997–2006	43	243	107	1,133	75	–	1,601	1,363
2007–16	–	–	–	–	49	–	49	52
1992–2016	701	732	1,261	1,466	151	–	4,311	3,586
Total Borrowings	1,215	1,464	1,610	1,677	173	325	6,464	5,442
Reduced By:								
Unamortized Debt Issue Costs	2	10	16	–	–	–	28	–
	1,213	1,454	1,594	1,677	173	325	6,436	5,442
Sinking Funds Provided	76	173	100	505	18	–	872	660
	$ 1,137	$ 1,281	$ 1,494	$ 1,172	$ 155	$ 325	$ 5,564	$ 4,782

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXPENDITURE BY OBJECT

SCHEDULE 6

As at March 31, 1986
(with comparative figures for the year ended March 31, 1985)

	($ millions) 1986	1985
Personnel Services	$ 509	$ 480
Grants/Transfer Payments	2,043	1,940
Transportation	11	9
Communications	20	17
Supplies and Services	210	172
Social Assistance Related	236	216
Other Operating	32	39
Capital	277	292
Public Debt	273	224
Hydro Rates Stabilization	34	18
	$ 3,645	$ 3,407

GOVERNMENT OF THE PROVINCE OF MANITOBA

ACCOUNTING POLICIES–STATEMENT AND APPLICATION

STATEMENT OF ACCOUNTING POLICIES

The basic accounting policies followed by the Government of Manitoba, which have been applied in the preparation of these Financial Statements are summarized below. These policies have been developed and are applied in accord with the provisions of the Financial Administration Act, which is Chapter F55 of The Continuing Consolidation of The Statutes of Manitoba. Further information regarding their application to the financial transactions of the Government is provided in the section entitled "Application of Accounting Policies".

I. THE ACCOUNTING ENTITY

The financial transactions of the Government are recorded in "The Consolidated Fund". The activities of The Consolidated Fund are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the trust administration function.

Financial statements prepared for the "Operating Fund" report amounts received as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt. Financial statements prepared for the "Trust Fund" report the activities in the various categories of trust money administered by the Government.

The financial operations of the provincial Crown Corporations, Agencies, Boards and Commissions are reflected in The Consolidated Fund to the extent that:

1) They receive money from or pay money to the Government.
2) Any deficits they incur are adjusted against the amounts loaned, advanced or invested in them by the Government.

II. BASIS OF ACCOUNTING FOR REVENUE AND EXPENDITURE

A REVENUE

i) Revenue is ordinarily recorded on a cash basis, with the exception of provincially collected tax revenue, income from investments and advances, shared-cost receipts and Canada-Manitoba Fiscal Arrangements. Accordingly, all money received by Departments on or before March 31 is included in the revenue for the fiscal year, provided that it is deposited with the Minister of Finance prior to the thirtieth day of April, immediately following.

ii) Provincially collected taxes received by the Government in April with respect to collections made by Agents during March are recorded as revenue for the fiscal year just ended.

iii) Income from investments and interest on advances are recorded on an accrual basis. In the case of the provincial sinking funds, any discount or premium arising on purchase is amortized over the period to maturity.

iv) Money received pursuant to shared-cost agreements and arrangements that extend over more than one fiscal year is recorded as revenue in each fiscal year in proportion to the related expenditure made in the respective year.

v) Revenue and expenditure are recorded in gross amounts (referred to as the Gross Accounting Concept) with the exception of the Municipal Share of Individual and Corporation Income Taxes, which is paid to Municipalities in accordance with the Provincial-Municipal Tax Sharing Act and is not recorded as revenue by the Government.

vi) Recoveries from Crown Corporations and Government Agencies of the debt servicing costs on self-supporting debt are recorded as a reduction of Public Debt expenditure. The same treatment is also given to income earned on investments and interest on advances.

B EXPENDITURE

Expenditure is recorded on a cash basis, modified to allow an additional forty-five days after the end of the fiscal year for the processing of payments pertaining to that fiscal year. Salaries and wages, however, are charged to the fiscal year in which they are paid.

An accrual is made to March 31st for interest payable on bonds, debentures and other long-term debt and on trust funds invested with the Minister of Finance. An annual provision is made for unrealized losses (gains) on long-term debt that is payable in foreign currencies so that this cost is amortized over the life of the debt issue. Any discount, premium or commission incurred on the issue of the debt is also amortized over the life of the issue.

III. ASSETS AND LIABILITIES

1. The assets and liabilities reported in the financial statements are financial claims consisting of assets which are claims by the Government on other parties and liabilities which are claims by other parties on the Government.
2. Expenditure for the acquisition and/or construction of physical assets together with inventories and other deferred expenditures is not considered to differ from any other service to the public and accordingly is treated as an expenditure of the year in which the expenditure is made. Since such expenditure does not represent financial claims on others, it is not reported as an asset at fiscal year end. This does not negate the fact that the Government has substantial holdings of physical assets such as buildings, highways, education and health facilities, which may tend to appreciate in value over time.
3. Loans, advances and long-term investments held by the Government are subject to annual revaluation. A Valuation Allowance is provided and is adjusted annually to reflect the estimated change in value of these assets.

4. Bonds, debentures and other long–term debt are recorded as liabilities at the par value of such securities. Any discount, premium or commission incurred at the time of issue of the debt is amortized over the life of the debt issue. For foreign issues, the par value is converted to Canadian Funds at the exchange rate in effect at the date of issue, or the actual conversion rate of the proceeds. Sinking funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act.

IV. GUARANTEED AND INDIRECT LIABILITIES

In addition to having direct debt, the Government also acts as a guarantor of securities issued by various other entities. The debt guaranteed pertaining to Crown Corporations, Agencies, Boards and Commissions is largely self–supporting. Other guaranteed debt for schools, universities and hospitals is serviced in whole or in part from appropriations of the Consolidated Fund. Legislation requires the maintenance of Sinking Funds for the retirement of the debt of most Crown Corporations, Agencies, Boards and Commissions. These Sinking Funds are maintained by the Minister of Finance through annual contributions from the Crown Corporation, Agency, Board or Commission to whom the debt applies and are held in the Trust Fund.

Other Contingent Liabilities that result from other financial activities of the Government are also reported annually in the Public Accounts.

APPLICATION OF ACCOUNTING POLICIES

The following outlines the application of these accounting policies to the financial transactions of the Government:

I. REVENUE

The revenue of the fiscal year is generally the amount received during the fiscal year. Exceptions are made for provincially collected taxes, shared–cost receipts, income from investments, and revenue from the Government of Canada, which are subject to the following additional practices:

a) Provincially collected taxes received by the Government in April with respect to collections made by Agents during March are recorded as revenue for the fiscal year just ended. These amounts are recorded as an account receivable from these Agents as at March 31.

b) A revenue receivable is recorded at March 31st for the interest accrued to that date on the temporary investments of the Operating Fund, on investments owned by the Province of Manitoba Sinking Fund and on advances to Crown Corporations, Agencies, Boards and Commissions. This amount is shown as a revenue receivable even though the income from investments is treated as a reduction in the Public Debt appropriation. The discount (premium) incurred at the time of purchase of the sinking fund investments is also recognized annually in the accounts. The discount (premium) is amortized over the term of the investment with a proportionate increase (decrease) in the book value of the investment.

c) Where, pursuant to an agreement or arrangement, money is received in advance relating to projects for which expenditure is to be made in more than one fiscal year, the money is deemed to have been received in each fiscal year in proportion to the related expenditure made in the respective fiscal year.

d) It is the practice to show the uncollected balance of claims related to shared–cost agreements with the Government of Canada as an account receivable at March 31. This accrual is made in order that the revenue from this source is recorded in proportion to the related expenditure incurred in the fiscal year.

e) The accounts are kept open until June 30 to reflect any adjustments regarding revenue from the Government of Canada under the Canada–Manitoba Fiscal Arrangements that the Government of Manitoba may become aware of before that date. Since this is a major source of Government revenue, this practice is considered necessary to show the financial condition of the Government in the most accurate manner possible.

II. EXPENDITURE

Expenditure of the fiscal year is essentially payments made from appropriations during the fiscal year and for a subsequent forty–five day period after March 31. The accounts remain open during this period to allow processing time for expenditure pertaining to the fiscal year just ended.

The following additional practices are applicable when recording the public debt costs of the Province:

1. An accrual is made to March 31st for the interest payable on bonds, debentures and other long–term debt and on trust funds invested with the Minister of Finance. In the case of foreign issues, the accrual is based on the exchange rate that was recorded at the time of debt issue. There is no provision made for the fluctuation of foreign currencies between the debt issue dates and the interest payment dates.
2. An annual provision is made for the unrealized losses (gains) that will occur at maturity on long–term debt that is payable in foreign currencies because of fluctuations in currency values over the life of the issue.
3. Any discount, premium or commission incurred on the issue of long term debt is amortized over the life of the respective debt issue.

The Valuation Allowance is not charged to an appropriation. This amount, which represents an estimate of the change in recoverable value of loans and advances and long–term investments during the fiscal year is reported as a separate item on the Statement of Revenue and Expenditure but is not included in the "Excess of Expenditure Over Revenue". When a legal realization of the loss occurs, the final write off of the loan, advance or investment will also be disclosed after the operating results on the Statement of Revenue and Expenditure.

Payments made by the Government for capital purposes are classified in a separate category of expenditure

called "Expenditures Related to Capital Assets" and are defined as follows:

a) Expenditures for property of all kinds, both real property and chattels, purchased or self-constructed for use by Government that are deemed to have an economic life in excess of one year.

b) Expenditures for projects or activities which entail major renewals, modification or modernization by own labour forces on behalf of the Government. The expenditures should significantly prolong the expected economic life of the asset.

c) The principal portion of a debt repayment when the debt was incurred to acquire a physical asset and the acquisition cost of the physical asset was not previously reflected in the Consolidated Fund as an expenditure.

d) Grants or assistance payments to municipalities, school divisions, external agencies, commercial organizations and private individuals which are known to be for the purchase, construction or improvement of physical assets.

III. ASSETS AND LIABILITIES

The Statement of Financial Position — Operating fund is prepared in accordance with the following practices:

1. **CASH AND EQUIVALENTS**

This classification is comprised of the temporary investments of the Province which are reduced by the net overdraft in the Province's bank accounts. It is further reduced by the amount of uninvested cash belonging to the Provincial Sinking Fund. This cash is designated as part of the Provincial Sinking Fund and will be made available for long-term investment when required. Temporary investments are securities held as a result of the investment of the Government's cash flow and are generally comprised of money market instruments such as term deposits and negotiable securities which are intended to be held for a short term. All investments are shown at cost. The net bank overdraft has been adjusted for cheques issued prior to and not presented for payment at March 31st and for cash in transit.

2. **REVENUE RECEIVABLE**

Amounts accrued at March 31st for provincially collected tax revenues, interest on investments and advances and the uncollected balance of claims related to shared-cost agreements with the Government of Canada are shown here.

3. **LOANS AND ADVANCES**

Advances to Crown Corporations, Agencies, Boards and Commissions, which are generally interest bearing, are shown under this heading.

The Sinking Funds provided by Crown Corporations, Agencies, Boards and Commissions for repayment of the debt issued to fund advances to these entities are deducted from the advances.

Certain of the Crown Corporations are charged with a responsibility for administering Government programs for which they receive funds from Government appropriations. These funds are applied by the Corporation towards the program administration cost, including, in some cases, a portion of the interest they are charged on these advances. The principal repayment and/or interest charges for certain of the advances are dependent on total or partial funding from future appropriations of the Operating Fund.

Loans and advances to Municipal Corporations or others under various Government programs are included here. Certain of these amounts may be interest bearing depending on the nature of the program.

All loans and advances are recorded at cost and are subject to annual valuation to reflect reductions from their recorded value to their estimated realizable value.

4. **LONG-TERM INVESTMENTS**

The majority of the Province's long-term investments consist of shares and debentures of Crown Corporations. These investments are carried at cost which does not reflect the realizable value of the investments. Any decrease in the estimated realizable value is provided for in the valuation allowance, which is described in the next paragraph.

5. **VALUATION ALLOWANCE**

An allowance is provided for decreases in the value of loans, advances and long-term investments and is adjusted annually for changes that may occur in the estimated realizable value of these assets. The allowance is used to provide for the accumulated deficits of the Crown Corporations, Agencies, Boards and Commissions in which the Government has invested money by way of loans, advances or purchase of shares. The valuation is based on the most recent audited financial statements applicable to the fiscal year being reported that are available at the time of publication of the Public Accounts. If the Government has more than one type of investment in an organization (eg. common shares, preferred shares and debentures), the accumulated deficit is assigned against the investments in order of priority on liquidation.

In the case of loans, advances or investment in other entities or programs the allowance is used to reflect the estimated recoverable value of these amounts.

6. **AMOUNT OWING TO THE TRUST FUND**

A large portion of this money has been deposited with the Minister of Finance in accordance with the terms of the legislation regulating the management of sinking funds and surplus cash of Crown Corporations, Agencies, Boards and Commissions, but is not specifically invested. Such deposits are accorded a market rate of interest.

7. **ACCOUNTS PAYABLE, ACCRUED CHARGES AND FUNDS SUBJECT TO CALL**

Cheques issued during the forty-five day period after March 31, in payment for goods and services pertaining to the fiscal year just ended are shown as accounts payable rather than as outstanding cheques.

Accrued charges represent the accrual of interest on provincial securities and on Trust Funds.

Funds subject to call consist of money received from the Government of Canada under shared-cost programs that will not be taken into revenue until earned.

8. **BORROWINGS**

This category includes bonds, debentures, secured loans from the Government of Canada, treasury bills and notes. Securities issued in Canadian Funds are recorded at par value. Securities issued in foreign funds are recorded at the Canadian Dollar equivalent of the par value based on the actual conversion of the proceeds or at the exchange rate in effect at the date of issue if conversion does not take place at issue date. Securities payable in foreign funds issued for the purpose of refunding other issues payable in the same currency are recorded at the Canadian Dollar equivalent of the par value at the date of issue.

The Government is required, by legislation, to determine the Canadian Dollar equivalent of provincial securities issued in foreign currencies or units of monetary value at March 31st of each year. The amount determined must be published in the Public Accounts as information regarding the current valuation of this foreign debt. An annual provision is made for these unrealized losses (gains) as described in paragraph 9 below.

Borrowings are reduced by the unamortized balance of the discount, premium or commission incurred on the issue of long-term debt which will be amortized over the remaining term of the debt issues for which these costs were incurred.

Borrowings are also reduced by Sinking Funds which are maintained in accordance with the legal requirements of the debt instruments and the Financial Adminstration Act. Money is allocated annually to these sinking funds on the following basis:

a) A sum equal to 3% of the aggregate amount of general purpose debt, in Canadian Dollars, outstanding at the end of the preceding fiscal year; and

b) All earnings derived from investing the sinking fund.

In addition principal repayments of advances which are funded by the issue of provincial securities are deposited to the sinking fund provided that the principal repayments are made prior to the maturity date of such securities.

The total shown for sinking funds also includes sinking fund money provided by Crown Corporations, Agencies, Boards and Commissions in respect to debt incurred on their behalf by the Government.

9. **PROVISION FOR UNREALIZED FOREIGN CURRENCY LOSSES**

An annual provision is made for the estimated losses (gains) that could occur at maturity on long-term debt that is payable in foreign currencies because of fluctuations in currency values between the debt issue dates and maturity dates. Each fiscal year-end the foreign debt is revalued using the average of the exchange rates that were in effect during the fiscal year just ended and during the preceding two years. The provision is calculated by amortizing the currency fluctuation over the remaining term of the debt.

When the debt matures, the actual loss (gain) is adjusted against the cumulative provision for that specific debt issue. Any difference between the actual amount and the amount provided is charged (credited) to the Public Debt appropriation.

10. **EXCESS OF LIABILITIES OVER FINANCIAL ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE:**

a) SERIAL DEBENTURES OF SCHOOL DIVISIONS AND DISTRICTS, TRANSFERRED FROM THE MANITOBA SCHOOL CAPITAL FINANCING AUTHORITY

The School Capital Financing Authority Act was repealed April 1, 1983 at which date all investments and money held by the Authority, as well as debt payable by the Authority, was assumed by the Government. The investments transferred to the Government consist of serial debentures issued by school divisions and districts for which the Government is primarily responsible for repayment. These securities are therefore included in this category because they do not represent a claim on other parties.

The budget estimates of expenditure provide an annual appropriation in the Consolidated Fund to cover the principal and interest costs of these debentures. The cash drawn from this appropriation for the required annual principal repayments is transferred to the Province's sinking fund where it will be used for repayment at maturity of the debt assumed from the Authority. A similar treatment would be accorded any proceeds from the sale of the school debentures.

b) SECURITIES RECEIVED FROM THE SALE OF LAND AND BUILDINGS TO MANITOBA PROPERTIES INC.

Land and buildings, having an aggregate value of $917 million, were sold to Manitoba Properties Inc. under various sales agreements during 1984/85 and 1985/86. In addition to cash, the purchase consideration received from the sale consisted of common shares of Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. and promissory notes from Manitoba Properties Inc.

The recorded value of the common shares has been reduced by a special valuation account which was established from a portion of the sale proceeds and is used to reflect the potential diminution in value of these shares as the result of dividends paid to preferred shareholders of Manitoba Properties Inc. on an

annual basis. Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. jointly own all the common shares of Manitoba Properties Inc. and the value of their equity in these shares could decrease annually with the payment of dividends by the latter to preferred shareholders.

Interest payable to the Province on the promissory notes is funded from annual rental payments made by the Province to Manitoba Properties Inc. and is therefore dependent on future appropriations of the Consolidated Fund. These securities are therefore included under this category because they do not represent a claim on other parties.

c) EXCESS OF LIABILITIES OVER FINANCIAL ASSETS

This account and the two accounts previously described represent the difference between liabilities, which are financial claims owing by the Government, and financial assets, which are financial claims receivable by the Government. Since the physical assets and materials inventories of the Government do not constitute a financial claim receivable by the Government, they are not considered in the determination of this balance.

IV. CHANGES IN ACCOUNTING POLICY

Section 10 of the Financial Administration Act requires a statement of any change in the accounting policies of the Government from those followed in the preceding fiscal year. The changes for the fiscal year ended March 31, 1986 were as follows:

a) The practice previously in effect of accruing interest payable at March 31st on bonds, debentures and other long-term debt has been expanded to include interest payable on trust funds deposited with the Minister of Finance for investment. These trust funds form part of and are invested in the Consolidated Fund and are accorded a market rate of interest. In order to accommodate the transition from the cash basis previously followed for this item, an adjustment of $4.5 million was made through the Excess of Liabilities Over Financial Assets Account for the amount that would have been accrued at March 31, 1985.

b) A Provision for Unrealized Foreign Currency Losses was established so that an annual provision would be accrued for the fluctuation in currency values that occurs in long-term debt between the debt issue date and maturity date. Previously the losses (gains) that resulted from the fluctuation in currency values was recognized only at the time of debt maturity. In order to accommodate the establishment of this provision for those debt issues that were outstanding prior to March 31, 1985, an adjustment of $256.4 million was made through the Excess of Liabilities Over Financial Assets Account. The provision for 1985/86 of $15.8 million is charged against the Public Debt appropriation.

c) Any discount, premium or commission cost incurred on the issue of long-term debt is treated as a deferred expenditure and allocated over the life of the debt issue. Previously these costs were treated as an expenditure of the year in which the debt was issued. In order to accommodate the transition from the cash basis previously followed, an adjustment of $27.7 million was made through the Excess of Liabilities Over Financial Assets Account for the amount of deferred expenditure pertaining to outstanding debt issues at March 31, 1985.

d) Interest income was accrued at March 31st, 1986 on temporary investment of the Operating Fund, on investments owned by the Province of Manitoba Sinking Fund, and on advances to Crown Corporations, Agencies, Boards and Commissions. Previously, this interest income was recorded on a cash basis. Accounting policy was also changed regarding the discount (premium) incurred at the time of purchase of sinking fund investments. The discount (premium) is now amortized over the term of the investment so that a portion is now recognized in the accounts as being earned annually whereas previously it was only recorded at the time of investment disposal or maturity. In order to accommodate the transition from the cash basis for these two items, adjustments of $24.2 million for interest income and of $19.5 million for discount (premium) on investments were made through the Excess of Liabilities Over Financial Assets Account for the amount applicable to investments and advances at March 31, 1985.

e) The allowance titled "Allowance For Losses On Realization Of Assets" has been renamed "Valuation Allowance" and its purpose has been expanded to include all Loans and Advances and Long-Term Investments. Previously this allowance was used only for Crown Corporations, Agencies, Boards and Commission in which the Government has invested money by way of loans, advances or purchase of shares.

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ASSETS AND LIABILITIES

As at March 31, 1986
(with Comparative Figures for March 31, 1985)

ASSETS	March 31, 1986	March 31, 1985
Amount Due from Operating Fund	$ 487,889,264	$ 525,858,331
Cash and Investments	569,530,791	541,661,351
Total Trust Assets	$ 1,057,420,055	$ 1,067,519,682
LIABILITIES		
Trust Fund Balances	$ 1,057,420,055	$ 1,067,519,682
Total Trust Liabilities	$ 1,057,420,055	$ 1,067,519,682
CUSTODIAL TRUST FUNDS		
Cash, Bonds and Other Securities held by the Department of Finance and Other Government Departments – as listed on page 5 – 23	$ 529,711,242	$ 457,972,427

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ACCOUNTING POLICIES

The Trust Fund is divided into two primary divisions, Administered Trust and Custodial Trusts. Those trusts where the Government has the responsibility for the administration and for investment of the trust are considered Administered Trusts. Those trusts where the Government responsibility is custodial in nature and there is little or no administration responsibility are considered Custodial Trusts. Generally, the responsiblity for investment of Custodial Trust is that of the depositor. A statement of Assets and Liabilities for the Trust Fund is included in the Public Accounts showing the assets and liabilities for Administered Trusts. Details of Custodial accounts are set out in a note to the statement of Assets and Liabilities.

Administered Trusts are divided into five categories:

1. Sinking Funds – This category includes sinking fund contributions deposited with the Minister of Finance by Crown Corporations, Agencies, Boards and Commissions in respect of their direct debt.

2. Funds on Deposit For Investment – Funds surplus to the immediate cash requirement of Crown Corporations, Agencies, Boards and Commissions are deposited for investment with the Minister of Finance. Although certain of these deposits are covered by specific investments in the Trust Fund, the majority of these funds are invested with the Minister of Finance and interest is paid at market rate in accordance with the term of the investment.

3. Banking Facility Accounts — These accounts are operated for those Crown Corporations, Agencies, Boards and Commissions who bank with the Minister of Finance.

4. Operating Trusts — Certain trusts are established where legislation or agreements require receipts and related expenditure to be kept separate from Government revenue and expenditure. These "designated trusts" may, in some cases, be used for programs similar to those operated from appropriated funds but are kept separate because a trust requirement has been established. A separate Statement of Receipts, Payments and Transfers is prepared for each of these operating trusts and is published in the Trust Fund section of the Public Accounts.

5. Miscellaneous Trusts — This category contains trust accounts resulting from the sundry deposit of cash and/or securities with the Government.